

**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**General information**

**Members of the Council:**

Jonas DA	Mayor
Madikane SE	Councillor
Mpamba B	Councillor
De Bruin E	Councillor
Louw P	Councillor
Kywe A	Councillor
Humphreys MA	Councillor

**Municipal Manager:** M Mogale

**Chief Financial Officer:** GD Nieuwenhuizen

**Grading of Local Authority:** Grade 2

**Auditors:** Auditor-General

**Bankers:** ABSA Bank Limited

**Registered Office:** Church Street  
Hopetown  
8750

**Physical address:** Church Street  
Hopetown  
8750

**Postal address:** Private Bag X3  
Hopetown  
8750

**Telephone number:** (053) 203 0005

**Fax number:** (053) 203 0490

**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Approval of annual financial statements**

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 102, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



---

**Municipal Manager: M Mogale**

**30 November 2012**

**THEMEBLIHLEI LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**INDEX**

Description	Page no.
Report of the Chief Financial Officer	4
Statement of Financial Position	11
Statement of Financial Performance	12
Statement of Changes in Net Assets	13
Cash Flow Statement	14
Accounting Policies	15
Notes to the Financial Statements	45
 <b>The following appendices do not form part of the Annual Financial Statements:</b>	
Appendix A	94
Appendix B	95
Appendix C	97
Appendix D	98
Appendix E(1)	99
Appendix E(2)	101
Appendix F	102

**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 JUNE 2012**

**REPORT OF THE CHIEF FINANCIAL OFFICER**

## 1. INTRODUCTION

It gives me great pleasure to present the financial position of Thembelihle Local Municipality at 30 June 2012 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2011/12 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2012 indicates an increase in Net Assets, and an increase in both Non-current Liabilities and Current Liabilities.

The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of the surplus generated on the operating account. The increase in Non-current Liabilities is primarily as a result of the increases in Retirement Benefit Liabilities and Long-service Benefits. The increase in Current Liabilities is primarily as a result of the increase in Creditors and Unspent Conditional Grants.

## 2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

### Financial Statement Ratios:

INDICATOR	2012	2011
Surplus / (Deficit) before Appropriations	123,240,846	143,812,492
Surplus / (Deficit) at the end of the Year	2,836,003	(20,739,146)
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	22.15%	22.48%
Remuneration of Councillors	3.04%	2.52%
Depreciation and Amortisation	18.46%	19.26%
Impairment Losses	10.90%	45.06%
Repairs and Maintenance	4.35%	4.65%
Finance Costs	0.69%	0.63%
Bulk Purchases	14.02%	10.64%
Contracted Services	6.99%	1.37%
Grants and Subsidies Paid	0.75%	0.00%
General Expenses	18.66%	12.88%
Current Ratio:		
Creditors Days	69	62
Debtors Days	122	43

## 3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

The services offered by Thembelihle Local Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 JUNE 2012

**REPORT OF THE CHIEF FINANCIAL OFFICER**

The overall operating results for the year ended 30 June 2012 are as follows:

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
<b>Income:</b>					
Opening surplus / (deficit)	123,240,846	143,812,492	(14.30)%		
Operating income for the year	57,698,916	44,811,628	28.76%	39,029,200	47.84%
	180,939,761	188,624,120	(4.07)%		
<b>Expenditure:</b>					
Operating expenditure for the year	54,862,913	65,550,774	(16.30)%	59,957,074	(8.50)%
Sundry transfers	(46,388)	-	100.00%	-	100.00%
Closing surplus / (deficit)	126,123,236	123,073,346	2.48%		
	180,939,761	188,624,120	(4.07)%		

### 3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	32,571,362	33,005,962	(1.32)%	20,177,944	61.42%
Expenditure	(22,872,535)	(42,107,146)	(45.68)%	(33,685,879)	(32.10)%
Surplus / (Deficit)	9,698,827	(9,101,183)	(206.57)%	(13,507,935)	(171.80)%
Surplus / (Deficit) as % of total income	29.78%	(27.57)%		(66.94)%	

### 3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	473,324	307,923	53.71%	388,225	21.92%
Expenditure	(1,207,477)	(1,123,830)	7.44%	(285,896)	322.35%
Surplus / (Deficit)	(734,153)	(815,906)	(10.02)%	102,329	(817.44)%
Surplus / (Deficit) as % of total income	(155.11)%	(264.97)%		26.36%	

### 3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	2,930,477	3,492,077	(16.08)%	3,207,718	(8.64)%
Expenditure	(12,196,264)	(12,440,944)	(1.97)%	(10,076,988)	21.03%
Surplus / (Deficit)	(9,265,787)	(8,948,867)	3.54%	(6,869,270)	34.89%
Surplus / (Deficit) as % of total income	(316.19)%	(256.26)%		(214.15)%	

**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 JUNE 2012

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**3.4 Electricity Services:**

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R7,422,636 (2011: R5,679,755). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	10,892,072	6,341,827	71.75%	7,882,552	38.18%
Expenditure	(12,144,628)	(6,773,604)	79.29%	(8,500,601)	42.87%
Surplus / (Deficit)	(1,252,556)	(431,777)	190.09%	(618,049)	102.66%
Surplus / (Deficit) as % of total income	(11.50)%	(6.81)%		(7.84)%	

**3.5 Water Services:**

Water is bought in bulk from Department of Water Affairs and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R267,896 (2011: R158,699). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	10,831,681	1,663,838	551.01%	7,372,761	46.91%
Expenditure	(6,442,009)	(3,105,250)	107.46%	(7,407,710)	(13.04)%
Surplus / (Deficit)	4,389,673	(1,441,412)	(404.54)%	(34,949)	(12660.21)%
Surplus / (Deficit) as % of total income	40.53%	(86.63)%		(0.47)%	

**4. FINANCING OF CAPITAL EXPENDITURE**

The expenditure on Assets during the year amounted to R18 346 966 (2011: R13 069 978). Full details of Assets are disclosed in Notes 7, 8, 9 and Appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of R18 346 966 was financed as follows:

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Grants and Subsidies	18,346,966	12,854,231	42.73%	28,067,336	(34.63)%
Own Funds (Accumulated Surplus)	-	215,747	(100.00)%	-	-
	<b>18,346,966</b>	<b>13,069,978</b>	<b>40.37%</b>	<b>28,067,336</b>	<b>(34.63)%</b>

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2012	2011
Grants and Subsidies	100.00%	98.35%
Own Funds (Accumulated Surplus)	-	1.65%

Property, Plant and Equipment is funded to such a great extent from grants and subsidies because the municipality does not have the financial resources to finance capital from its own funds.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 JUNE 2012

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**4. RECONCILIATION OF BUDGET TO ACTUAL**

**4.1 Operating Budget:**

DETAILS	2012	2011
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	(20,927,874)	-
Revenue variances	18,669,716	(3,154,922)
Expenditure variances:		
Employee Related Costs	913,861	(1,193,235)
Remuneration of Councillors	11,014	22,430
Depreciation	(5,996,376)	(10,565,352)
Impairment Losses	9,017,230	(21,210,986)
Repairs and Maintenance	(1,049,676)	(421,995)
Interest Paid	(156,660)	(193,616)
Bulk Purchases	559,143	519,566
Contracted Services	(3,834,225)	(749,550)
Grants and Subsidies Paid	680,212	19,111,515
General Expenses	4,949,638	(2,903,001)
<b>Actual surplus before appropriations</b>	<b>2,836,003</b>	<b>(20,739,146)</b>

DETAILS	2012	2011
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	(20,927,874)	-
Administration	6,995,468	7,558,823
Community	(122,030)	137,437
Council	(16,645,863)	(18,161,687)
Disaster Management	(2,389,023)	(1,924,880)
Electrical	1,372,429	389,627
Finance	30,661,060	35,411,540
Interns	767,936	11,442
Libraries	(680,445)	662,168
Municipal Manager	1,418,799	278,338
Properties	671,204	662,451
Rates	(2,170,898)	-
Refuse	1,099,304	(1,950,258)
Sewerage	354,914	1,328,898
Support Services	(7,884,783)	(12,811,003)
Technical	14,199,891	9,045,871
Traffic	(2,374,504)	(2,688,026)
Water	(7,181,587)	2,788,405
<b>Actual surplus before appropriations</b>	<b>(2,836,003)</b>	<b>20,739,146</b>

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with a criptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 JUNE 2012

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**4.2 Capital Budget:**

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Variance actual 2011/12 / 2010/11 R	Budgeted 2011/12 R	Variance actual/ budgeted R
General Administration	-	1,075	(1,075)	-	-
Interns	47,025	-	47,025	70,000	(22,975)
Finance	123,838	18,194	105,644	-	123,838
Library	-	1,228	(1,228)	40,000	(40,000)
Traffic	-	-	-	26,382	(26,382)
Technical Services	-	13,264,283	(13,264,283)	26,382	(26,382)
Community Hall	42,794	-	42,794	-	42,794
Support Services	18,028,191	154	18,028,037	13,430,954	4,597,237
Electricity Service	-	30,375	(30,375)	2,500,000	(2,500,000)
Water Works Service	-	24,470	(24,470)	12,000,000	(12,000,000)
	<b>18,241,849</b>	<b>13,339,778</b>	<b>4,902,071</b>	<b>28,093,718</b>	<b>(9,851,869)</b>

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with a criptic explanation of significant variances of more than 5% from budget, are included in Appendix "E (2)".

**5. ACCUMULATED SURPLUS**

The balance of the Accumulated Surplus as at 30 June 2012 amounted to R126 197 961 (30 June 2011: R123 240 845) and is made up as follows:

Capital Replacement Reserve	-
Accumulated Surplus	126,197,961
	<u>126,197,961</u>

Refer to Note 20 and the Statement of Change in Net Assets for more detail.

**6. LONG-TERM LIABILITIES**

The outstanding amount of Long-term Liabilities as at 30 June 2012 was R5 668 154 (30 June 2011: R3 743 081).

Refer to Note 15 and Appendix "A" for more detail.

**7. RETIREMENT BENEFIT LIABILITIES**

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2012 was R4 973 134 (30 June 2011: R5 257 152).

This liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

Refer to Note 16 for more detail.

**9. NON-CURRENT PROVISIONS**

Non-current Provisions amounted R5 514 791 as at 30 June 2012 (30 June 2011: R5 033 842) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites	5,514,791
	<u>5,514,791</u>

These provisions are made in order to enable the municipality to be in a position to fulfill its known legal obligations when they become due and payable.

Refer to Note 17 for more detail.



**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 JUNE 2012**

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**8. CURRENT LIABILITIES**

Current Liabilities amounted R16 984 593 as at 30 June 2012 (30 June 2011: R12 127 853) and is made up as follows:

Consumer Deposits	Note 10	422,395
Provisions	Note 11	665,226
Creditors from Exchange Transactions	Note 12	10,666,633
Unspent Conditional Grants and Receipts	Note 13	4,990,018
Operating Lease Liabilities/Payables	Note 14	108,791
Bank Overdraft	Note 6	65,113
Current Portion of Long-term Liabilities	Note 15	66,418
		<u>16,984,593</u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

**9. PROPERTY, PLANT AND EQUIPMENT**

The net value of Property, Plant and Equipment was R180 441 245 as at 30 June 2012 (30 June 2011: R172 324 214).

Refer to Note 7 and Appendices "B, C and E (2)" for more detail.

**10. INTANGIBLE ASSETS**

The net value of Intangible Assets were R14 622 as at 30 June 2012 (30 June 2011: R3 698).

These are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 8 and Appendix "B" for more detail.

**11. INVESTMENT PROPERTIES**

The net value of Investment Properties were R4 393 203 as at 30 June 2012 (30 June 2011: R4 393 203).

Refer to Note 9 and Appendix "B" for more detail.

**14. CURRENT ASSETS**

Current Assets amounted R6 528 425 as at 30 June 2012 (30 June 2011: R4 812 883) and is made up as follows:

Inventory	Note 2	198,521
Receivables from Exchange Transactions	Note 3	860,912
Receivables from Non-exchange Transactions	Note 4	1,470,942
VAT Receivable	Note 5	1,372,412
Bank, Cash and Cash Equivalents	Note 6	2,625,639
		<u>6,528,425</u>

The increase in the amount for Current Assets is mainly due to the increased amount held in Bank and Cash Equivalents.

Refer to the indicated Notes for more detail.

**15. INTER-GOVERNMENTAL GRANTS**

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 13 and 22, and Appendix "F" for more detail.

**16. EVENTS AFTER THE REPORTING DATE**

Full details of all known events, if any, after the reporting date are disclosed in Note 50.

THEMBELIHLE LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
for the year ended 30 JUNE 2012  
  
REPORT OF THE CHIEF FINANCIAL OFFICER

**17. GENERAL RECOGNISED ACCOUNTING PRACTICE (GRAP)**

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the Annual Financial Statements have been converted to the new reporting GRAP-format.

**18. EXPRESSION OF APPRECIATION**

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

  
\_\_\_\_\_  
CHIEF FINANCIAL OFFICER  
30 November 2012

**THEMBELIHLE LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012**

		Actual	
	Note	2012	2011
ASSETS		R	R
<b>Current Assets</b>		<b>6,968,934</b>	<b>4,812,883</b>
Inventory	2	198,521	146,171
Receivables from Exchange Transactions	3	860,912	757,359
Receivables from Non-exchange Transactions	4	1,470,942	976,994
VAT Receivable	5	1,372,412	840,782
Bank, Cash and Cash Equivalents	6	3,066,147	2,091,577
<b>Non-Current Assets</b>		<b>184,849,070</b>	<b>176,721,115</b>
Property, Plant and Equipment	7	180,441,245	172,324,214
Intangible Assets	8	14,622	3,698
Investment Property	9	4,393,203	4,393,203
<b>Total Assets</b>		<b>191,818,004</b>	<b>181,533,998</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>17,425,102</b>	<b>12,127,853</b>
Consumer Deposits	10	422,395	376,324
Provisions	11	665,226	513,911
Creditors from Exchange Transactions	12	11,172,255	7,031,580
Unspent Conditional Grants and Receipts	13	4,990,018	2,349,359
Operating Lease Liabilities/Payables	14	108,791	17,699
Current Portion of Long-term Liabilities	15	66,418	1,838,979
<b>Non-Current Liabilities</b>		<b>16,571,886</b>	<b>14,374,745</b>
Long-term Liabilities	15	5,668,154	3,743,081
Retirement Benefit Liabilities	16	4,973,134	5,257,152
Non-current Provisions	17	5,514,791	5,033,842
Long Service Award	18	415,807	340,670
<b>Total Liabilities</b>		<b>33,996,988</b>	<b>26,502,598</b>
<b>Total Assets and Liabilities</b>		<b>157,821,016</b>	<b>155,031,400</b>
<b>NET ASSETS</b>		<b>157,821,017</b>	<b>155,031,401</b>
Reserves	19	31,623,056	31,790,556
Accumulated Surplus / (Deficit)	20	126,197,961	123,240,845
<b>Total Net Assets</b>		<b>157,821,017</b>	<b>155,031,401</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012**

		Actual	
	Note	2012 R	2011 R
<b>REVENUE</b>			
<b>Revenue from Non-exchange Transactions</b>			
Property Rates	21	2,267,974	1,937,860
Fines		4,900,990	2,201,952
Licences and Permits		31,085	163,833
Government Grants and Subsidies Received	22	34,540,992	26,717,955
<b>Revenue from Exchange Transactions</b>			
Service Charges	23	13,349,179	10,838,877
Rental of Facilities and Equipment	24	285,357	186,654
Interest Earned - External Investments	25	124,512	37,679
Interest Earned - Outstanding Debtors	25	600,520	609,825
Other Income	26	1,598,307	2,116,993
<b>Total Revenue</b>		<b>57,698,916</b>	<b>44,811,628</b>
<b>EXPENDITURE</b>			
Employee Related Costs	27	12,151,438	12,332,330
Remuneration of Councillors	28	1,667,171	1,381,097
Depreciation and Amortisation	29	10,126,716	10,565,352
Impairment Losses	30	5,982,770	24,721,036
Repairs and Maintenance	31	2,386,330	2,552,922
Finance Costs	32	376,660	344,399
Bulk Purchases		7,690,533	5,838,454
Contracted Services	33	3,834,225	749,550
Grants and Subsidies Paid	34	411,813	-
General Expenses	35	10,235,258	7,065,634
<b>Total Expenditure</b>		<b>54,862,913</b>	<b>65,550,774</b>
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>		<b>2,836,003</b>	<b>(20,739,146)</b>

**Refer to Appendix E(1) for explanation of budget variances**

**THEMBELIHLE LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2012**

Description	Revaluation Reserve	Total for Accumulated Surplus/(Deficit) Account	Total
<b>2011</b>	<b>R</b>	<b>R</b>	<b>R</b>
Balance at 30 June 2010	31,958,056	144,522,369	176,480,426
Change in Accounting Policy (Note 38)		-	-
Correction of Error (Note 39)	-	(709,877)	(709,877)
<b>Restated Balance</b>	<b>31,958,056</b>	<b>143,812,492</b>	<b>175,770,548</b>
Surplus / (Deficit) for the year		(20,739,146)	(20,739,146)
Offsetting of Depreciation	(167,500)	167,500	-
<b>Balance at 30 June 2011</b>	<b>31,790,556</b>	<b>123,240,846</b>	<b>155,031,402</b>
<b>2012</b>			
Change in Accounting Policy (Note 38)		-	-
Correction of Error (Note 39)		-	-
<b>Restated Balance</b>	<b>31,790,556</b>	<b>123,240,846</b>	<b>155,031,402</b>
Surplus / (Deficit) for the year		2,836,003	2,836,003
Net gains / (losses) not recognised in the Statement of Financial Performance		(46,388)	(46,388)
Offsetting of Depreciation	(167,500)	167,500	-
<b>Balance at 30 June 2012</b>	<b>31,623,056</b>	<b>126,197,960</b>	<b>157,821,017</b>

Details on the movement of the Funds and Reserves are set out in Note 20.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012**

	Note	Actual 2012 R	2011 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from Ratepayers, Government and Other		52,379,026	60,881,116
Cash paid to Suppliers and Employees		(34,156,292)	(46,676,010)
<b>Cash generated from / (utilised in) Operations</b>	<b>37</b>	<b>18,728,357</b>	<b>14,205,106</b>
Interest received	<b>25</b>	725,032	647,504
Interest paid	<b>31</b>	(376,660)	(344,399)
<b>NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES</b>		<b>19,076,728</b>	<b>14,508,211</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	<b>7</b>	(18,241,849)	(13,069,978)
Purchase of Intangible Assets	<b>8</b>	(16,568)	-
Proceeds on Disposal of Property, Plant and Equipment	<b>7</b>	3,747	-
<b>NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>		<b>(18,254,671)</b>	<b>(13,069,978)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loans raised	<b>15</b>	152,512	195,924
<b>NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>		<b>152,512</b>	<b>195,924</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>974,570</b>	<b>1,634,157</b>
Cash and Cash Equivalents at the beginning of the year	<b>6</b>	2,091,577	457,420
Cash and Cash Equivalents at the end of the year	<b>6</b>	3,066,147	2,091,577

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**1. BASIS OF PRESENTATION**

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

**1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY**

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2011 and 30 June 2012 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

**1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS**

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

**1. 2. 1 Revenue Recognition**

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**1. BASIS OF PRESENTATION (continued)**

**1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)**

**1. 2. 2 Financial Assets and Liabilities**

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 6.1 on *Financial Assets Classification* and Accounting Policy 6.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement*.

**1. 2. 3 Impairment of Financial Assets**

Accounting Policy 6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors. The total increase in estimation of the impairment of trade and other receivables from exchange transactions amounted to R5,924,955 and that of trade and other receivable from non exchange transactions to R809 447.

**1. 2. 4 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property**

As described in Accounting Policies 3.3, 4 and 5 the municipality depreciates / amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

**1. 2. 5 Impairment: Write down of Property, Plant and Equipment and Inventories**

Accounting Policy 3.9 on *PPE - Impairment of Assets* and Accounting Policy 4.2 on *Intangible Assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 8.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).



**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**1. BASIS OF PRESENTATION (continued)**

**1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)**

**1. 2. 5 *Impairment: Write down of Property, Plant and Equipment and Inventories (continued)***

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Cash generating Assets and GRAP 26: Impairment of non-Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management. During the year the estimated impairments to Property plant and equipment amounted to R2 004 432, whilst no impairments were made to intangible assets or inventory.

**1. 2. 6 *Water inventory***

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to Note 10 of the accounting policy notes to the Annual Financial Statements.

**1. 2. 7 *Defined Benefit Plan Liabilities***

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 5 and 6 to the Annual Financial Statements.

**1. 2. 8 *Provisions and Contingent Liabilities***

**Provision for Rehabilitation of Refuse Landfill Sites**

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 5% (2011: 5.5%) and discounted to the present value:

- a) For landfill sites with a remaining operating life of less than 5 years, at the average short term borrowing cost of 11.14% (2011: 11.3475%).
- b) For landfill sites with a remaining operating life of greater than 5 years, at the average long-term treasury bond rate 4.09% (2011: 4.09%).

**1. 2. 9 *Budget information***

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained in the notes to the annual financial statements.

**1. 3 PRESENTATION CURRENCY**

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

**1. 4 GOING CONCERN ASSUMPTION**

The Annual Financial Statements have been prepared on a going concern basis.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**1. BASIS OF PRESENTATION (continued)**

**1. 5 OFFSETTING**

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

**1. 6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005  
GRAP 20 Related Party Disclosures (Revised)  
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009  
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008  
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007  
GRAP 25 Employee Benefits - issued December 2009  
GRAP 26 Impairment of Cash-generating Assets - issued March 2009  
GRAP 103 Heritage Assets - issued July 2008  
GRAP 104 Financial Instruments - issued October 2009  
GRAP 105 Transfers between entities under common control - issued November 2010  
GRAP 106 Transfers between entities not under common control - issued November 2010  
GRAP 107 Mergers - issued November 2010

The Minister of Finance announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 and GRAP 104 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)  
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)  
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)  
Financial Instruments (GRAP 104 Financial Instruments - October 2009)

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**2. ACCUMULATED SURPLUS**

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

**2. 1 Revaluation Reserve**

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/ (deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/ (deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

**2. 2 Other Reserves**

The Entity creates and maintains reserves in terms of specific requirements.

**2. 2. 1 Capital Replacement Reserve (CRR)**

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
- If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.

Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

**3. PROPERTY, PLANT AND EQUIPMENT**

**3. 1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**3. PROPERTY, PLANT AND EQUIPMENT (continued)**

**3. 1 Initial Recognition (Continued)**

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**3. 2 Subsequent Measurement**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, excluding land and building and including for Infrastructure Assets, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Infrastructure assets are stated at the depreciated replacement cost.

Subsequent to initial recognition, land and buildings are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Previously, land and buildings were carried at cost less accumulated depreciation and impairment losses. These changes are recorded as a change in accounting policy in the Statement of Financial Performance.

An increase in the carrying amount of land and buildings as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to accumulated surplus or deficit.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**3. PROPERTY, PLANT AND EQUIPMENT (continued)**

**3. 3 Depreciation**

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

	<b>Years</b>		<b>Years</b>
<b><i>Infrastructure</i></b>		<b><i>Buildings</i></b>	30 - 100
Roads and Paving	45 - 50		
Electricity	45 - 50	<b><i>Other</i></b>	
Water	15 - 100	Specialist Vehicles	5 - 20
Sewerage	15 - 100	Other Vehicles	5 - 10
Landfill Sites	10 - 65	Office Equipment	3 - 7
		Furniture and Fittings	7 - 10
<b><i>Community</i></b>		Watercraft	15
Recreational Facilities	15 - 60	Bins and Containers	5
Security	5	Specialised Plant and Equipment	10 - 15
		Other items of Plant and Equipment	2 - 5

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

**3. 4 Incomplete Construction Work**

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

**3. 5 Finance Leases**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

**3. 6 Land**

Land is not depreciated as it is deemed to have an indefinite useful life.

**3. 7 Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**3. PROPERTY, PLANT AND EQUIPMENT (continued)**

**3. 9 Derecognition of property, plant and equipment**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

**Transitional provisions**

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2011 (and applied retrospectively where practicable), and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3 and ASB Directive 4.

**4. HERITAGE ASSETS**

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to Subsequent to measurement, heritage assets are carried at cost less impairment losses.

**4. 1 Initial Recognition**

The cost of an item of heritage assets is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

**4. 2 Subsequent Measurement**

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets are measured at cost, less accumulated impairment losses.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**4. HERITAGE ASSETS (continued)**

**4. 3 Derecognition of Heritage assets**

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of heritage assets is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

**Transitional provisions**

The municipality utilised the transitional provisions under Directive 4, which allows 3 year for the measurement of heritage assets.

**5. INTANGIBLE ASSETS**

**5. 1 Initial Recognition**

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with GRAP 21 / GRAP 26.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**5. INTANGIBLE ASSETS (continued)**

**5. 2 Subsequent Measurement, Amortisation and Impairment**

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

After initial recognition, intangible assets are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. If the intangible asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to the revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same intangible asset previously recognised in surplus or deficit.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The usefull lives per category of intangible assets are detailed below:

	<b>Years</b>
<b><i>Intangible asset</i></b>	
Software	3

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

**5. 3 Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**5. 4 Transitional provisions**

Intangible assets recognised in terms of GRAP 102 have been presented for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.



**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**6. INVESTMENT PROPERTY**

**6. 1 Initial Recognition**

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

**6. 2 Subsequent Measurement - Fair Value Model**

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers at the date of the last general valuation (1 July 2009). Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**6. INVESTMENT PROPERTY (continued)**

**6. 3 Derecognition**

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

**6. 4 Transitional Provisions**

Investment properties recognised in terms of GRAP 16 have been presented for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 16, GRAP 3 and ASB Directive 4.

**7. IMPAIRMENT OF ASSETS**

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

**7. 1 Impairment of Cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset"

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**7. IMPAIRMENT OF ASSETS (continued)**

**7. 2 Impairment of Non-Cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

**7. 3 Transitional provisions**

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2011 (and applied retrospectively where practicable), and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3 and ASB Directive 4.

**8. FINANCIAL INSTRUMENTS**

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

**Initial recognition**

**Fair value methods and assumptions**

**The effective interest rate method**

**Amortised cost**

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**8. FINANCIAL INSTRUMENTS (continued)**

**8. 1 Financial Assets - Classification**

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

<b>Type of Financial Asset</b>	<b>Classification in terms of IAS 39.09</b>
Short-term Investment Deposits – Call	Held-to-maturity investments
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

**8. 2 Financial Liabilities - Classification**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**8. FINANCIAL INSTRUMENTS (continued)**

**8. 2 Financial Liabilities - Classification (continued)**

▪ Long-term Liabilities	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Certain Other Creditors (see note 9)	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Bank Overdraft	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Consumer Deposits	Financial liabilities at fair value through profit and loss

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Fair value through profit or loss; or
- (ii) Other financial liabilities (Financial liabilities measured at amortised cost)
- (iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

**8. 3 Initial and Subsequent Measurement**

**8. 3. 1 Financial Assets:**

*Held-to-maturity Investments* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

*Financial assets at fair value through profit or loss* are initially and subsequently recognised at fair value and changes in fair value recognised directly through profit or loss.

*Loans and Receivables* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .

*Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.*

*Available-for-Sale Financial Assets* are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**8. FINANCIAL INSTRUMENTS (continued)**

**8. 3. 2 Financial Liabilities:**

***Financial liabilities***

Financial liabilities that are measured at fair value through profit or loss are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

**Financial Liabilities held at amortised cost**

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

**Financial guarantee contract**

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value.

The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

**8. 4 Impairment of Financial Assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

**Available-for-sale financial assets**

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

**Financial assets carried at amortised cost**

Accounts receivables encompass long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**8. FINANCIAL INSTRUMENTS (continued)**

**8. 4 Impairment of Financial Assets (continued)**

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**8. 5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**8. 6 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**9. INVENTORIES**

**9. 1 Initial Recognition**

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

**9. 2 Subsequent Measurement**

**Consumable stores, raw materials, work-in-progress and finished goods**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

**Water inventory**

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, nett of trade discounts and rebates.

Water and purified effluent are valued by using the **(FIFO / weighted average)** method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

**Unsold properties**

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

**Redundant and slow-moving inventories**

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

**Transitional provisions**

The net realisable value of inventory recognised in terms of GRAP 12 have been disclosed for the financial year ended 30 June 2012 in accordance with the requirements of GRAP 12, GRAP 3 and ASB Directive 4.



**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**10. NON-CURRENT ASSETS HELD-FOR-SALE**

**10. 1 Initial Recognition**

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**10. 2 Subsequent Measurement**

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

**11. REVENUE RECOGNITION**

**11. 1 General**

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**11. REVENUE RECOGNITION (continued)**

**11. 2 Revenue from Exchange Transactions**

**11. 2. 1 Service Charges**

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

**11. 2. 2 Pre-paid Electricity**

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

**11. 2. 3 Finance income**

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

**11. 2. 4 Tariff Charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

**11. 2. 5 Income from Agency Services**

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**11. REVENUE RECOGNITION (continued)**

**11. 2 Revenue from Exchange Transactions (continued)**

**11. 2. 6 Sale of Goods (including Houses)**

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**11. 2. 7 Rentals**

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

**11. 2. 8 Dividends**

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

**11. 2. 9 Royalties**

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

**11. 3 Revenue from Non-exchange Transactions**

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

**11. 3. 1 Rates and Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

**11. 3. 2 Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**11. REVENUE RECOGNITION (continued)**

**11. 3 Revenue from Non-exchange Transactions (continued)**

**11. 3. 3 Public contributions**

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

**11. 3. 4 Government Grants and receipts**

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

**Conditional grants and receipts of a capital nature**

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

**11. 3. 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**12. PROVISIONS**

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

**Provision for Restructuring cost**

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken;
  - when the plan will be implemented; and;
- (b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

**Environmental rehabilitation provisions**

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**13. EMPLOYEE BENEFITS**

**13. 1 Short-term Employee Benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

**13. 2 Post employment benefits**

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

**13. 2. 1 Defined Contribution Plans**

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**13. 3 Defined Benefit Plans**

A **defined benefit plan** is a post- employment benefit plan other than a defined contribution plan.

**13. 3. 1 Post-retirement Health Care Benefits:**

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the "*corridor method*". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**13. EMPLOYEE BENEFITS (continued)**

**13. 3 Defined Benefit Plans (continued)**

**13. 3. 1 *Post-retirement Health Care Benefits: (continued)***

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

**13. 3. 2 *Long-service Allowance***

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

**13. 3. 3 *Provincially-administered Defined Benefit Plans***

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 47 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

**13. 3. 4 *Defined benefit pension plans***

The municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**14. LEASES**

**Lease Classification**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

**14. 1 The Municipality as Lessee**

**Finance leases**

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

**Operating leases**

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**14. 2 The Municipality as Lessor**

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.



**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**14. LEASES (continued)**

**14. 3 Determining whether an arrangement contains a lease**

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

**15. BORROWING COSTS**

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 4. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

**16. GRANTS-IN-AID**

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

**17. VALUE ADDED TAX**

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**18. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**19. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**20. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**21. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 37 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 37 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

**22. RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**23. EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

**24. FOREIGN CURRENCIES**

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

**25. COMPARATIVE INFORMATION**

**25. 1 Current year comparatives:**

Budgeted amounts have, in accordance with GRAP 1, been provided to these financial statements and forms part of the Annual Financial Statements.

**25. 2 Prior year comparatives**

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

**25. 3 Budget Information**

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or underspending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

**26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

**27. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES**

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

**THEMBELIHLE LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**28. CAPITAL COMMITMENTS**

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>1. GENERAL INFORMATION</b>		
<p>Thembelihle Local Municipality (the municipality) is a local government institution in Hopetown and Strydenburg, Northern Cape Province, and is one of eight local municipalities under the jurisdiction of the Pixley-ka-Seme District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).</p>		
<b>2. INVENTORY</b>		
Maintenance Materials - at cost	175,047	113,681
Water - at cost	23,473	32,490
	-	-
<b>Total Inventory</b>	<b>198,521</b>	<b>146,171</b>

Inventories are held for own use with the result that no write downs of Inventory to Net Realisable Value were required.

The cost of water production for the year amounted to R14.38 per kilolitre (2011: R14.38 per kilolitre).

No Inventories have been pledged as collateral for Liabilities of the municipality.

**3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2012</b>			
Service Debtors:	27,757,858	(26,912,058)	845,800
Electricity	5,240,695	(4,604,306)	636,389
Refuse	4,683,242	(4,640,325)	42,917
Sewerage	8,394,401	(8,310,479)	83,921
Water	9,439,521	(9,356,948)	82,573
Other Debtors	2,802,292	(2,787,181)	15,112
Other Debtors	2,802,292	(2,787,181)	15,112
<b>Total Trade Receivables from Exchange Transactions</b>	<b>30,560,151</b>	<b>(29,699,239)</b>	<b>860,912</b>

	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2011</b>			
Service Debtors:	22,242,294	(21,547,568)	694,726
Electricity	3,689,166	(3,156,777)	532,389
Refuse	3,907,201	(3,869,733)	37,467
Sewerage	7,030,383	(6,956,970)	73,413
Water	7,615,545	(7,564,088)	51,457
Other Debtors	5,446,272	(5,383,639)	62,633
Other Debtors	5,446,272	(5,383,639)	62,633
<b>Total Trade Receivables from Exchange Transactions</b>	<b>27,688,567</b>	<b>(26,931,207)</b>	<b>757,359</b>

Trade Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Trade Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality receives applications that it processes. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of Trade Receivables.

The municipality did not pledge any of its Trade Receivables as security for borrowing purposes.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)**

The management of the municipality is of the opinion that the carrying value of Trade Receivables approximate their fair values.

The fair value of Trade Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Trade Receivables as well as the current payment ratio's of the municipality's Trade Receivables.

**3.1 Ageing of Trade Receivables from Exchange Transactions**

**As at 30 June 2012**

	<b>Current</b> 0 - 30 Days	<b>Past Due</b>			<b>Total</b>
		31 - 60 Days	61 - 90 Days	+ 90 Days	
<b><i>Electricity:</i></b>					
Gross Balances	849,064	365,321	307,095	3,719,215	5,240,695
Less: Provision for Impairment	(315,243)	(303,448)	(282,352)	(3,703,263)	(4,604,306)
<b>Net Balances</b>	<b>533,821</b>	<b>61,873</b>	<b>24,743</b>	<b>15,952</b>	<b>636,389</b>
<b><i>Refuse:</i></b>					
Gross Balances	107,894	85,005	82,168	4,408,175	4,683,242
Less: Provision for Impairment	(77,153)	(77,752)	(77,918)	(4,407,502)	(4,640,325)
<b>Net Balances</b>	<b>30,741</b>	<b>7,254</b>	<b>4,250</b>	<b>673</b>	<b>42,917</b>
<b><i>Sewerage:</i></b>					
Gross Balances	195,632	154,238	145,074	7,899,457	8,394,401
Less: Provision for Impairment	(137,138)	(138,120)	(137,537)	(7,897,685)	(8,310,479)
<b>Net Balances</b>	<b>58,494</b>	<b>16,118</b>	<b>7,537</b>	<b>1,773</b>	<b>83,921</b>
<b><i>Water:</i></b>					
Gross Balances	192,881	126,971	152,548	8,967,121	9,439,521
Less: Provision for Impairment	(134,033)	(117,934)	(141,306)	(8,963,674)	(9,356,948)
<b>Net Balances</b>	<b>58,848</b>	<b>9,036</b>	<b>11,242</b>	<b>3,447</b>	<b>82,573</b>
<b><i>Other Debtors:</i></b>					
Gross Balances	69,496	52,148	50,363	2,630,286	2,802,292
Less: Provision for Impairment	(64,627)	(47,529)	(47,254)	(2,627,771)	(2,787,181)
<b>Net Balances</b>	<b>4,870</b>	<b>4,619</b>	<b>3,108</b>	<b>2,515</b>	<b>15,112</b>

As at 30 June Trade Receivables of R174 139 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	<b>Past Due</b>			<b>Total</b>
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b><i>All Trade Receivables:</i></b>				
Gross Balances	783,682	737,248	27,624,254	29,145,184
Less: Provision for Impairment	(684,783)	(686,367)	(27,599,895)	(28,971,044)
<b>Net Balances</b>	<b>98,899</b>	<b>50,881</b>	<b>24,359</b>	<b>174,139</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)**

**As at 30 June 2011**

	<b>Current</b>	<b>Past Due</b>			<b>Total</b>
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b><i>Electricity:</i></b>					
Gross Balances	542,604	337,336	202,653	2,606,573	3,689,166
Less: Provision for Impairment	(199,589)	(200,511)	(162,947)	(2,593,730)	(3,156,777)
<b>Net Balances</b>	<b>343,014</b>	<b>136,825</b>	<b>39,706</b>	<b>12,843</b>	<b>532,389</b>
<b><i>Refuse:</i></b>					
Gross Balances	95,936	74,007	69,691	3,667,567	3,907,201
Less: Provision for Impairment	(68,041)	(68,279)	(67,296)	(3,666,117)	(3,869,733)
<b>Net Balances</b>	<b>27,895</b>	<b>5,728</b>	<b>2,394</b>	<b>1,450</b>	<b>37,467</b>
<b><i>Sewerage:</i></b>					
Gross Balances	173,197	134,721	124,730	6,597,735	7,030,383
Less: Provision for Impairment	(121,341)	(121,716)	(119,372)	(6,594,540)	(6,956,970)
<b>Net Balances</b>	<b>51,856</b>	<b>13,005</b>	<b>5,358</b>	<b>3,195</b>	<b>73,413</b>
<b><i>Water:</i></b>					
Gross Balances	155,745	105,290	122,340	7,232,170	7,615,545
Less: Provision for Impairment	(118,031)	(97,631)	(118,332)	(7,230,096)	(7,564,089)
<b>Net Balances</b>	<b>37,715</b>	<b>7,658</b>	<b>4,008</b>	<b>2,074</b>	<b>51,455</b>
<b><i>Other Debtors:</i></b>					
Gross Balances	63,248	74,715	45,604	2,105,782	2,289,349
Less: Provision for Impairment	(41,325)	(45,218)	(39,456)	(2,100,717)	(2,226,716)
<b>Net Balances</b>	<b>21,923</b>	<b>29,497</b>	<b>6,148</b>	<b>5,065</b>	<b>62,633</b>

As at 30 June Trade Receivables of R274 955 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	<b>Past Due</b>			<b>Total</b>
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b><i>All Trade Receivables:</i></b>				
Gross Balances	726,068	565,017	22,209,828	23,500,913
Less: Provision for Impairment	(533,355)	(507,403)	(22,185,200)	(23,225,958)
<b>Net Balances</b>	<b>192,713</b>	<b>57,614</b>	<b>24,628</b>	<b>274,955</b>

**3.2 Reconciliation of the Provision for Impairment**

Balance at beginning of year	(23,774,284)	-
Impairment Losses recognised	(5,924,955)	(23,774,284)
Impairment Losses reversed	-	-
Amounts written off as uncollectable	-	-
Amounts recovered	-	-
<b>Balance at end of year</b>	<b>(29,699,239)</b>	<b>(23,774,284)</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**                      **2011**  
**R**

**3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)**

In determining the recoverability of a Trade Receivable, the municipality considers any change in the credit quality of the Trade Receivable from the date credit was initially granted up to the reporting date. Furthermore, the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector or geographical area. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

Provision for impairment of Trade Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type.

Included in the municipality's Trade Receivables balance are debtors with a carrying amount of R174 139 (2011: R274 955) which are past due at the reporting date for which the municipality has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits (see Note 10), which are not covering the total outstanding debt. The average age of these receivables is 84 days (2011: 85 days).

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

**3.3 Ageing of impaired Trade Receivables from Exchange Transactions**

Current:

0 - 30 Days	(728,194)	(548,327)
-------------	-----------	-----------

Past Due:

31 - 60 Days	(684,783)	(533,355)
--------------	-----------	-----------

61 - 90 Days	(686,367)	(507,403)
--------------	-----------	-----------

+ 90 Days	(27,599,895)	(22,185,200)
-----------	--------------	--------------

<b>Total</b>	<b>(29,699,239)</b>	<b>(23,774,286)</b>
--------------	---------------------	---------------------

**3.4 Derecognition of Financial Assets**

No Financial Assets have been transferred to other parties during the year.

**4. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2012</b>			
Assessment Rates Debtors	4,522,173	(4,480,376)	41,797
Government Subsidy Claims	1,008,242	-	1,008,242
Creditors with Debit Balances	77,840	-	77,840
Sundry Debtors	538,536	(195,473)	343,063
<b>Total Trade Receivables from Non-exchange Transactions</b>	<b>6,146,790</b>	<b>(4,675,848)</b>	<b>1,470,942</b>
	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2011</b>			
Assessment Rates Debtors	4,145,607	(3,866,401)	279,206
Sundry Debtors	697,788	-	697,788
<b>Total Trade Receivables from Non-exchange Transactions</b>	<b>4,843,395</b>	<b>(3,866,401)</b>	<b>976,994</b>



**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**4. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)**

The average credit period for Other Trade Receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Other Trade Receivables.

The municipality does not hold deposits or other security for its Other Trade Receivables.

None of the Other Trade Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Other Trade Receivables approximate their fair values.

**4.1 Ageing of Trade Receivables from Non-exchange Transactions**

**As at 30 June 2012**

	<b>Current</b>	<b>Past Due</b>			<b>Total</b>
	<b>0 - 30 days</b>	<b>31 - 60 Days</b>	<b>61 - 90 Days</b>	<b>+ 90 Days</b>	
<b>Assessment Rates:</b>					
Gross Balances	95,235	63,968	58,292	4,304,678	4,522,173
Less: Provision for Impairment	(59,971)	(59,605)	(56,611)	(4,304,189)	(4,480,376)
<b>Net Balances</b>	<b>35,265</b>	<b>4,363</b>	<b>1,680</b>	<b>489</b>	<b>41,797</b>
<b>Government Subsidy Claims:</b>					
Gross Balances	1,008,242	-	-	-	1,008,242
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>1,008,242</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,008,242</b>
<b>Creditors with Debit Balances:</b>					
Gross Balances	77,840	-	-	-	77,840
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>77,840</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,840</b>
<b>Sundry Debtors:</b>					
Gross Balances	339,137	981	981	197,437	538,536
Less: Provision for Impairment	-	(981)	(981)	(193,511)	(195,473)
<b>Net Balances</b>	<b>339,137</b>	<b>-</b>	<b>-</b>	<b>3,926</b>	<b>343,063</b>

As at 30 June Other Trade Receivables of R10 458 were past due but not impaired. The age analysis of these Other Trade Receivables are as follows:

	<b>Past Due</b>			<b>Total</b>
	<b>31 - 60 Days</b>	<b>61 - 90 Days</b>	<b>+ 90 Days</b>	
<b>All Other Trade Receivables:</b>				
Gross Balances	64,948	59,272	4,502,115	4,626,336
Less: Provision for Impairment	(60,586)	(57,592)	(4,497,700)	(4,615,878)
<b>Net Balances</b>	<b>4,363</b>	<b>1,680</b>	<b>4,415</b>	<b>10,458</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**4. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)**

**As at 30 June 2011**

	<b>Current</b>	<b>Past Due</b>			<b>Total</b>
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Assessment Rates:</b>					
Gross Balances	84,029	55,936	53,835	3,708,064	3,901,865
Less: Provision for Impairment	(54,123)	(52,811)	(52,264)	(3,707,204)	(3,866,402)
<b>Net Balances</b>	<b>29,906</b>	<b>3,125</b>	<b>1,571</b>	<b>860</b>	<b>35,463</b>

**Sundry Debtors:**

Gross Balances	26,033	3,070	12,379	879,388	920,870
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>26,033</b>	<b>3,070</b>	<b>12,379</b>	<b>879,388</b>	<b>920,870</b>

As at 30 June Other Trade Receivables of R900 393 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	<b>Past Due</b>			<b>Total</b>
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Other Trade Receivables:</b>				
Gross Balances	59,006	66,214	4,587,452	4,712,673
Less: Provision for Impairment	(52,811)	(52,264)	(3,707,204)	(3,812,279)
<b>Net Balances</b>	<b>6,195</b>	<b>13,950</b>	<b>880,248</b>	<b>900,393</b>

The Provision for Impairment on Other Trade Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Rates Assessment Debtor and Other Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

The following loans and receivables are included in the total amount of the Provision for Impairment:

Sundry Debtors	-	-
<b>Total Provision for Impairment on Other Trade Receivables</b>	<b>-</b>	<b>-</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>5. VAT RECEIVABLE</b>		
Vat Receivable	<u>1,372,412</u>	<u>840,782</u>
Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.		
No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.		
<b>6. BANK, CASH AND CASH EQUIVALENTS</b>		
Bank, Cash and Cash Equivalents	3,066,147	2,091,577
Bank Overdraft	-	-
<b>Total Bank, Cash and Cash Equivalents</b>	<u><b>3,066,147</b></u>	<u><b>2,091,577</b></u>
For the purposes of the Statement of Financial Position and the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.		
<b>6.1 Current Investment Deposits</b>		
Call Deposits	2,374,258	1,353,566
<b>Total Current Investment Deposits</b>	<u><b>2,374,258</b></u>	<u><b>1,353,566</b></u>
<b>Call Deposit</b> are investments with a maturity period of less than 3 months and earn interest rates varying from 3% (2010: 6,20% to 8,50%) per annum.		
<b>6.2 Bank Accounts</b>		
Cash in Bank	689,673	737,690
Bank Overdraft	-	-
<b>Total Bank Accounts</b>	<u><b>689,673</b></u>	<u><b>737,690</b></u>
The Municipality has the following bank accounts:		
<b>Primary Bank Account</b>		
<i>ABSA Bank Limited - Hopetown Branch - Cheque Account Number 40 7030 7030</i>		
Cash book balance at beginning of year	270,928	279,495
Cash book balance at end of year	<u>440,509</u>	<u>270,928</u>
Bank statement balance at beginning of year	301,689	645,747
Bank statement balance at end of year	<u>440,883</u>	<u>301,689</u>
<i>ABSA Bank Limited -Hopetown Branch - Cheque Account Number 40 7512 6489</i>		
Cash book balance at beginning of year	460,052	164,861
Cash book balance at end of year	<u>223,100</u>	<u>460,052</u>
Bank statement balance at beginning of year	460,052	164,861
Bank statement balance at end of year	<u>223,100</u>	<u>460,052</u>
<i>ABSA Bank Limited - Hopetown Branch - Cheque Account Number 40 7722 5487</i>		
Cash book balance at beginning of year	6,710	-
Cash book balance at end of year	<u>26,064</u>	<u>6,710</u>
Bank statement balance at beginning of year	6,710	-
Bank statement balance at end of year	<u>26,064</u>	<u>6,710</u>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**6. BANK, CASH AND CASH EQUIVALENTS (Continued)**

Interest on overdrawn current accounts are charged at the banker's prime rate plus two percent per annum. Interest is earned at different rates per annum on favourable balances.

**6.3 Cash and Cash Equivalents**

Cash Floats and Advances	2,216	320
Other Cash Equivalents	-	1
<b>Total Cash on hand in Cash Floats, Advances and Equivalents</b>	<b><u>2,216</u></b>	<b><u>321</u></b>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**7. PROPERTY, PLANT AND EQUIPMENT**

**30 June 2012**

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra-structure	Community	Other	Total
	R	R	R	R	R
<b>Carrying values at 01 July 2011</b>	<b>29,566,744</b>	<b>137,819,942</b>	<b>2,223,813</b>	<b>2,713,716</b>	<b>172,324,214</b>
Cost	30,411,000	308,162,443	2,755,000	4,477,226	345,805,668
- Completed Assets	30,411,000	294,494,079	2,755,000	4,477,226	332,137,305
- Under Construction	-	13,668,363	-	-	13,668,363
Revaluation	-	-	-	-	-
Accumulated Depreciation:	(844,256)	(170,342,501)	(531,188)	(1,763,510)	(173,481,455)
- Cost	-	(170,342,501)	-	(1,763,510)	(172,106,011)
- Revaluation	(844,256)	-	(531,188)	-	(1,375,444)
Acquisitions	-	1,738,656	-	235,521	1,974,177
Capital under Construction - Additions:	-	16,267,672	-	-	16,267,672
- Cost	-	16,267,672	-	-	16,267,672
Additions	-	16,267,672	-	-	16,267,672
Depreciation:	(84,850)	(9,114,537)	(82,650)	(839,034)	(10,121,071)
- Based on Cost	-	(9,114,537)	-	(839,034)	(9,953,571)
- Based on Revaluation	(84,850)	-	(82,650)	-	(167,500)
Carrying value of Disposals:	-	-	-	(3,747)	(3,747)
- Cost	-	-	-	(17,500)	(17,500)
- Accumulated Depreciation	-	-	-	13,753	13,753
Based on Cost	-	-	-	13,753	13,753
<b>Carrying values at 30 June 2012</b>	<b>29,481,894</b>	<b>146,711,733</b>	<b>2,141,163</b>	<b>2,106,456</b>	<b>180,441,245</b>
Cost	30,411,000	326,168,771	2,755,000	4,695,247	364,030,017
- Completed Assets	30,411,000	296,232,735	2,755,000	4,695,247	334,093,982
- Under Construction	-	29,936,035	-	-	29,936,035
Revaluation	-	-	-	-	-
Accumulated Depreciation:	(929,106)	(179,457,038)	(613,838)	(2,588,790)	(183,588,772)
- Cost	-	(179,457,038)	-	(2,588,790)	(182,045,828)
- Revaluation	(929,106)	-	(613,838)	-	(1,542,944)

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**7. PROPERTY, PLANT AND EQUIPMENT (Continued)**

**30 June 2011**

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra- structure	Community	Other	Total
	R	R	R	R	R
<b>Carrying values at 01 July 2010</b>	<b>29,651,594</b>	<b>134,367,340</b>	<b>2,306,463</b>	<b>3,490,143</b>	<b>169,815,539</b>
Cost	30,411,000	295,112,864	2,755,000	4,456,827	332,735,691
- Completed Assets	30,411,000	281,461,511	2,755,000	4,456,827	319,084,338
- Under Construction	-	13,651,353	-	-	13,651,353
Revaluation	-	-	-	-	-
Accumulated Depreciation:	(759,406)	(160,745,524)	(448,538)	(966,684)	(162,920,152)
- Cost	-	(160,745,524)	-	(966,684)	(161,712,208)
- Revaluation	(759,406)	-	(448,538)	-	(1,207,944)
Acquisitions	-	13,032,568	-	20,399	13,052,967
Capital under Construction - Additions:	-	17,011	-	-	17,011
- Cost	-	-	-	-	-
Additions	-	17,011	-	-	17,011
Depreciation:	(84,850)	(9,596,977)	(82,650)	(796,826)	(10,561,303)
- Based on Cost	-	(9,596,977)	-	(796,826)	(10,393,803)
- Based on Revaluation	(84,850)	-	(82,650)	-	(167,500)
<b>Carrying values at 30 June 2011</b>	<b>29,566,744</b>	<b>137,819,942</b>	<b>2,223,813</b>	<b>2,713,716</b>	<b>172,324,214</b>
Cost	30,411,000	308,162,443	2,755,000	4,477,226	345,805,668
- Completed Assets	30,411,000	294,494,079	2,755,000	4,477,226	332,137,305
- Under Construction	-	13,668,363	-	-	13,668,363
Revaluation	-	-	-	-	-
Accumulated Depreciation:	(844,256)	(170,342,501)	(531,188)	(1,763,510)	(173,481,455)
- Cost	-	(170,342,501)	-	(1,763,510)	(172,106,011)
- Revaluation	(844,256)	-	(531,188)	-	(1,375,444)

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>7. PROPERTY, PLANT AND EQUIPMENT (Continued)</b>		
<b>7.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use</b>		
There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.		
<b>7.2 Assets pledged as security</b>		
The municipality did not pledge any of its assets as security.		
<b>7.3 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed</b>		
There was no change (2011: R0) in the estimated useful life of various assets of the municipality for the financial year 2011/12.		
<b>7.4 Revaluation Surplus</b>		
The Revaluation Reserve arises on the revaluation of Land and Buildings. Where revalued Land or Buildings are sold, the portion of the Revaluation Reserve that relates to that asset, and is effectively realised, is transferred directly to Accumulated Surplus.		
The Revaluation Surplus is reconciled as follows:		
Balance at beginning of year	31,790,556	31,958,056
Surplus / (Deficit) realised from Revaluation	-	-
Depreciation offset to Income Statement	(167,500)	(167,500)
<b>Balance at end of year</b>	<b>31,623,056</b>	<b>31,790,556</b>
<b>8. INTANGIBLE ASSETS</b>		
At Cost less Accumulated Amortisation and Accumulated Impairment Losses	<b>14,622</b>	<b>3,698</b>
The movement in Intangible Assets is reconciled as follows:		
	<b>Computer Software</b>	<b>Total</b>
<b>Carrying values at 01 July 2011</b>	<b>3,698</b>	<b>3,698</b>
Cost	8,650	8,650
Accumulated Amortisation	(4,952)	(4,952)
Acquisitions:	16,568	16,568
Purchased	16,568	16,568
Amortisation:	(5,645)	(5,645)
Purchased	(5,645)	(5,645)
<b>Carrying values at 30 June 2012</b>	<b>14,622</b>	<b>14,622</b>
Cost	25,218	25,218
Accumulated Amortisation	(10,596)	(10,596)

**THEMBELIHLE LOCAL MUNICIPALITY**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 8. INTANGIBLE ASSETS (Continued)

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

Computer Software	2 Years (2011: 2 Years)
-------------------	-------------------------

No restrictions apply to any of the Intangible Assets of the municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

At Fair Value	4,393,203	4,393,203
At Cost less Accumulated Depreciation	-	-

Carrying values at 1 July	4,393,203	4,393,203
Fair Value	4,393,203	4,393,203

Acquisitions during the Year	-	-
Depreciation during the Year	-	-

Carrying values at 30 June	4,393,203	4,393,203
Fair Value	4,393,203	4,393,203

Estimated Fair Value of Investment Property at 30 June	4,393,203	4,393,203
--	-----------	-----------

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.



**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**9. INVESTMENT PROPERTY (Continued)**

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

**9.1 Investment Property carried at Fair Value**

The municipality's Investment Property is valued annually at 30 June at fair value by an independent, professionally qualified, valuer. The valuation, which conforms to International Valuation Standards, is arrived at by reference to market evidence of transaction prices for similar properties.

**10. CONSUMER DEPOSITS**

Electricity and Water	422,395	376,324
<b>Total Consumer Deposits</b>	<b>422,395</b>	<b>376,324</b>
<b>Guarantees held in lieu of Electricity and Water Deposits</b>	<b>-</b>	<b>-</b>

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair values.

The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

**11. PROVISIONS**

Bonusses	300,700	260,737
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 16)	285,811	198,911
Current Portion of Non-Current Provisions (See Note 17)	78,715	54,263
Long-term Service	78,715	54,263
<b>Total Provisions</b>	<b>665,226</b>	<b>513,911</b>

The movement in provisions are reconciled as follows:

**Current Provisions:**

**Performance Bonuses:**

Balance at beginning of year	260,737	-
Contributions to provision	39,962	-
Expenditure incurred	-	-
<b>Balance at end of year</b>	<b>300,700</b>	<b>260,737</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>11. PROVISIONS (Continued)</b>		
<b>Current Portion of Non-Current Provisions:</b>		
	<b>Long-term Service R</b>	<b>Post-retirement R</b>
<b>30 June 2012</b>		
Balance at beginning of year	54,263	198,911
Transfer from non-current	-	-
Contributions to provision	78,715	285,811
Expenditure incurred	(54,263)	(198,911)
<b>Balance at end of year</b>	<b><u>78,715</u></b>	<b><u>285,811</u></b>
<b>30 June 2011</b>		
Balance at beginning of year	49,323	186,500
Transfer from non-current	54,263	198,911
Contributions to provision		
Expenditure incurred	(49,323)	(186,500)
<b>Balance at end of year</b>	<b><u>54,263</u></b>	<b><u>198,911</u></b>
<b>12. CREDITORS FROM EXCHANGE TRANSACTIONS</b>		
Trade Creditors	9,402,231	5,536,134
Staff Salaries	113,306	-
Staff Leave Accrued	666,035	741,021
Sundry Deposits	161,135	168,686
Other Creditors	829,547	585,739
<b>Total Creditors</b>	<b><u>11,172,255</u></b>	<b><u>7,031,580</u></b>

**Staff Leave** accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>13. UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>		
<b>13.1 Conditional Grants from Government</b>	<b>4,990,018</b>	<b>2,349,359</b>
National Government Grants	4,719,018	652,213
Provincial Government Grants	271,000	1,697,146
Other Spheres of Government	-	-
<b>Total Conditional Grants and Receipts</b>	<b>4,990,018</b>	<b>2,349,359</b>

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 22 for the reconciliation of Grants from Government. The Unspent Grants are cashbacked by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

**14. OPERATING LEASE LIABILITIES / PAYABLES**

Operating Leases are recognised on the straight-line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

Balance at beginning of year	17,699	14,612
Operating Lease expenses recorded	575,326	336,763
Operating Lease payments effected	(484,234)	(333,676)
<b>Total Operating Lease Liabilities</b>	<b>108,791</b>	<b>17,699</b>

**14.1 Leasing Arrangements**

**The Municipality as Lessee:**

Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

**14.2 Amounts payable under Operating Leases**

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment, which fall due as follows:

<b>Other Equipment:</b>	1,468,866	1,854,994
Up to 1 year	386,128	386,128
2 to 5 years	1,082,737	1,468,866
More than 5 years	-	-
<b>Total Operating Lease Arrangements</b>	<b>1,468,866</b>	<b>1,854,994</b>

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	484,234	333,676
Contingent rentals	-	-
Sub-lease payments received	-	-
<b>Total Operating Lease Expenses</b>	<b>484,234</b>	<b>333,676</b>

No restrictions have been imposed on the municipality in terms of the operating lease agreements.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>15. LONG-TERM LIABILITIES</b>		
Annuity Loans	5,734,572	5,582,060
Finance Lease Liabilities	-	-
Sub-total	<u>5,734,572</u>	<u>5,582,060</u>
Less: Current Portion transferred to Current Liabilities:-	(66,418)	(1,838,979)
Annuity Loans	(66,418)	(1,838,979)
Finance Lease Liabilities	-	-
<b>Total Long-term Liabilities</b> (Neither past due, nor impaired)	<u><u>5,668,154</u></u>	<u><u>3,743,081</u></u>

**15.1 Summary of Arrangements**

Annuity Loans are repaid over periods varying from 5 to 20 (2011: 5 to 20) years and at interest rates varying from 0 to 5% (2011: 5% to 6%) per annum. Annuity Loans are not secured.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

**15.2 Breach of Loan Agreement**

During 2011/2012 the municipality was late in paying interest on numerous loans with a carrying amount of R5 734 572. The delay arose because of a lack of funds at that time when the payment was due. The lender did not request accelerated repayment of the loan and the terms of the loan was not changed. The change of terms is disclosed under Appendix A.

**16. RETIREMENT BENEFIT LIABILITIES**

**16.1 Post-retirement Health Care Benefits Liability**

Balance at beginning of Year	5,456,063	4,712,276
Contributions to Provision	198,911	186,500
Increase due to Discounting	467,120	416,809
Benefits Paid	(170,268)	(162,936)
Actuarial (Gains) /Losses	(692,881)	303,414
Balance at end of Year	<u>5,258,945</u>	<u>5,456,063</u>
Transfer to Current Provisions	(285,811)	(198,911)
<b>Total Post-retirement Health Care Benefits Liability</b>	<u><u>4,973,134</u></u>	<u><u>5,257,152</u></u>

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Arch Actuarial Consultants, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>16. RETIREMENT BENEFIT LIABILITIES (Continued)</b>		
The members of the Post-employment Health Care Benefit Plan are made up as follows:		
In-service Members (Employees)	70	56
Continuation Members (Retirees, widowers and orphans)	5	6
<b>Total Members</b>	<b>75</b>	<b>62</b>
The liability in respect of past service has been estimated as follows:		
In-service Members	3,192,630	2,402,000
Continuation Members	1,964,315	3,054,000
<b>Total Liability</b>	<b>5,156,945</b>	<b>5,456,000</b>
The municipality makes monthly contributions for health care arrangements to the following		
- Bonitas		
- Hosmed		
- Keyhealth		
- LA Health		
- Samwumed		
<b>The principal assumptions used for the purposes of the actuarial valuations were as follows:</b>		
Discount Rate	8.03%	8.70%
Health Care Cost Inflation Rate	6.98%	7.25%
Net Effective Discount Rate	0.99%	1.36%
Expected Retirement Age - Females	60	60
Expected Retirement Age - Males	60	60
<b>Movements in the present value of the Defined Benefit Obligation were as follows:</b>		
Balance at the beginning of the year	5,456,063	4,712,276
Current service costs	198,911	186,500
Interest cost	467,120	416,809
Contributions from plan participants	-	-
Past-service costs	(170,268)	(162,936)
Benefits paid	-	-
Actuarial losses / (gains)	(692,881)	303,414
Losses / (gains) on curtailments	-	-
Liabilities extinguished on settlements	-	-
<b>Present Value of Fund Obligation at the end of the Year</b>	<b>5,258,945</b>	<b>5,456,063</b>
Actuarial losses / (gains) unrecognised	-	-
<b>Total Recognised Benefit Liability</b>	<b>5,258,945</b>	<b>5,456,063</b>
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>		
Present value of fund obligations	5,258,945	5,456,063
Fair value of plan assets	-	-
	5,258,945	5,456,063
Present value of unfunded obligations	(198,911)	(285,811)
Unfunded Accrued Liability	5,060,034	5,170,252
<b>Total Benefit Liability</b>	<b>5,060,034</b>	<b>5,170,252</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>16. RETIREMENT BENEFIT LIABILITIES (Continued)</b>		
<b>The amounts recognised in the Statement of Financial Performance are as follows:</b>		
Current service cost	198,911	186,500
Interest cost	467,120	416,809
Actuarial losses / (gains)	(692,881)	303,414
Past-service costs	(170,268)	(162,936)
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 27)</b>	<b>(197,118)</b>	<b>743,787</b>

The history of experienced adjustments is as follows:

	2012 R	2011 R	2010 R	2009 R
Present Value of Defined Benefit Obligation	5,258,945	5,456,063	4,712,276	3,814,783
Fair Value of Plan Assets	-	-	-	-
<b>Deficit</b>	<b>5,258,945</b>	<b>5,456,063</b>	<b>4,712,276</b>	<b>3,814,783</b>

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

**Increase:**

Effect on the aggregate of the current service cost and the interest cost	839,500	717,600
Effect on the defined benefit obligation	6,114,000	6,386,000

**Decrease:**

Effect on the aggregate of the current service cost and the interest cost	526,600	512,300
Effect on the defined benefit obligation	4,559,000	4,706,000

Refer to Note 44 "Multi-employer Retirement Benefit Information" to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

**17. NON-CURRENT PROVISIONS**

Provision for Rehabilitation of Land-fill Sites	5,514,791	5,033,842
<b>Total Non-current Provisions</b>	<b>5,514,791</b>	<b>5,033,842</b>

The movement in Non-current Provisions are reconciled as follows:

	Land-fill Sites R
<b>30 June 2012</b>	
Balance at beginning of year	5,033,842
Contributions to provision	-
Increase due to discounting	480,948
Expenditure incurred	-
	<u>5,514,791</u>
Transfer to current provisions	-
<b>Balance at end of year</b>	<b>5,514,791</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>17. NON-CURRENT PROVISIONS (Continued)</b>		
		<b>Land-fill Sites R</b>
<b>30 June 2011</b>		
Balance at beginning of year		4,594,838
Contributions to provision		439,005
Increase due to discounting		-
Expenditure incurred		-
		<hr/> 5,033,842
Transfer to current provisions		-
<b>Balance at end of year</b>		<hr/> <b>5,033,842</b> <hr/>
<b>17.1 Rehabilitation of Land-fill Sites</b>		
In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R5,5 (2011: R5,0) million to restore the site at the end of its useful life, estimated to be in 2013. Provision has been made for the net present value of this cost, using the average cost of borrowing interest rate.		
<b>18. LONG SERVICE AWARD</b>		
Provision for Long Service Awards	494,522	394,933
Transfer to current provisions	(78,715)	(54,263)
	<hr/> <b>415,807</b> <hr/>	<hr/> <b>340,670</b> <hr/>
The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.		
The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Arch Actuarial Consulting, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.		
At year end, 59 (2011: 57) employees were eligible for Long-services Awards.		
<b>The principal assumptions used for the purposes of the actuarial valuations were as follows:</b>		
Discount Rate	6.49%	7.78%
Net Effective Discount Rate	0.48%	1.41%
Expected Rate of Salary Increase	5.98%	6.28%
<b>Movements in the present value of the Long Service Award were as follows:</b>		
Balance at the beginning of the year	394,933	357,689
Current service costs	54,263	56,367
Interest cost	28,860	27,301
Benefit vesting	(48,473)	(47,150)
Actuarial losses / (gains)	64,939	726
<b>Present Value of Fund Obligation at the end of the Year</b>	<hr/> <b>494,522</b> <hr/>	<hr/> <b>394,933</b> <hr/>
Actuarial losses / (gains) unrecognised	-	-
<b>Total Recognised Benefit Liability</b>	<hr/> <b>494,522</b> <hr/>	<hr/> <b>394,933</b> <hr/>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**18. LONG SERVICE AWARD (Continued)**

**The amounts recognised in the Statement of Financial Position are as follows:**

	2012 R	2011 R
Present value of Long Service Award	494,522	394,933
<b>Total Benefit Liability</b>	<b>494,522</b>	<b>394,933</b>

**The amounts recognised in the Statement of Financial Performance are as follows:**

Current service cost	54,263	56,367
Interest cost	28,860	27,301
Benefit vesting	(48,473)	(47,150)
Actuarial losses / (gains)	64,939	726
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 27)</b>	<b>99,589</b>	<b>37,244</b>

**The history of experienced adjustments is as follows:**

	2012 R	2011 R	2010 R
Present Value of Long Service Award	494,522	394,933	357,689
<b>Deficit</b>	<b>494,522</b>	<b>394,933</b>	<b>357,689</b>

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

**Increase:**

Effect on the aggregate of the current service cost and the interest cost	88,250	76,146
Effect on the defined benefit obligation	418,000	378,581

**Decrease:**

Effect on the aggregate of the current service cost and the interest cost	79,502	68,597
Effect on the defined benefit obligation	374,000	338,730

**19. RESERVES**

Revaluation Reserve	31,623,056	31,790,556
<b>Total Reserves</b>	<b>31,623,056</b>	<b>31,790,556</b>

**19.1 Revaluation Reserve**

The Revaluation Reserve arises on the revaluation of Land and Buildings and qualifying Community Assets. Where revalued Land or Buildings are sold, the portion of the Revaluation Reserve that relates to that asset, and is effectively realised, is transferred directly to Accumulated Surplus.

Distributions from the Revaluation Reserve can be made where they are in accordance with the requirements of the municipality's accounting Policy and relevant case law. The payment of cash distributions out of the reserve is restricted by the terms of the municipality's Accounting policy. These restrictions do not apply to any amounts transferred to Accumulated Surplus. The Council do not currently intend to make any distribution from the Revaluation Reserve.



**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>19. RESERVES (Continued)</b>		
<b>Reconciliation of the Revaluation Reserve:</b>		
Balance at beginning of year	31,790,556	31,958,056
Depreciation transferred to surplus	(167,500)	(167,500)
<b>Balance at end of year</b>	<b><u>31,623,056</u></b>	<b><u>31,790,556</u></b>

Refer to Statement of Changes in Net Assets for more detail and the movement on Reserves.

**20. ACCUMULATED SURPLUS**

**The Accumulated Surplus consists of the following Internal Funds and Reserves:**

Capital Replacement Reserve (CRR)	-	-
Accumulated Surplus / (Deficit) due to the results of Operations	126,197,961	123,240,845
<b>Total Accumulated Surplus</b>	<b><u>126,197,961</u></b>	<b><u>123,240,845</u></b>

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

**21. PROPERTY RATES**

	<b>Property Valuations</b>		<b>Actual Levies</b>	
	<b>July 2012 R000's</b>	<b>July 2011 R000's</b>		
Residential	133,541,403	57,317,095	1,327,089	1,285,250
Commercial	27,277,500	12,130,222	368,222	301,880
Agricultural	1,836,495,122	-	215,690	-
State	21,810,450	17,666,200	356,974	350,730
<b>Total Property Rates</b>	<b><u>2,019,124,475</u></b>	<b><u>87,113,517</u></b>	<b><u>2,267,974</u></b>	<b><u>1,937,860</u></b>
Attributable to:				
Continuing Operations			2,267,974	1,937,860
Discontinued Operations			-	-
			<b><u>2,267,974</u></b>	<b><u>1,937,860</u></b>

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2011.

Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates:

- Agricultural Properties: 0.0004725 c/R
- Business Properties: 0.0131 c/R (2010/11: 0.09685 c/R)
- Government Properties: 0.01992 c/R (2010/11: 0.09685 c/R)
- Town Properties: 0.0126 c/R (2010/11: 0.09685 c/R)

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>22. GOVERNMENT GRANTS AND SUBSIDIES</b>		
National Equitable Share	12,349,000	10,814,604
<b>Operational Grants</b>	12,349,000	10,814,604
<b>Conditional Grants</b>	22,191,992	15,903,351
National: FMG	1,500,000	1,250,000
National: MIG	6,244,909	2,025,323
National: MSIG	790,000	750,000
National: DWAF	4,526,972	179,120
National: RBI	3,744,394	
Other: Pixley Project	-	100,000
Provincial: LED Economic Growth & Development Grant	2,135,427	10,828,908
Provincial: Library Development Fund	457,000	350,000
Provincial: Provincial: Department Minerals & Energy (Eskom Grant)	2,500,000	-
Other Spheres of Government: Various Grants	293,290	420,000
<b>Total Government Grants and Subsidies</b>	<b>34,540,992</b>	<b>26,717,955</b>
Attributable to:		
Continuing Operations	34,540,992	26,717,955
Discontinued Operations	-	-
	<b>34,540,992</b>	<b>26,717,955</b>
<b>Operational Grants:</b>		
<b>22.1 National: Equitable Share</b>	<b>12,349,000</b>	<b>10,814,604</b>
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R130, based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity free every month.		
<b>Conditional Grants:</b>		
<b>22.2 National: FMG Grant</b>		
Balance unspent at beginning of year	-	-
Current year receipts	1,500,000	1,250,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(1,500,000)	(1,250,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 13)	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns). All conditions attached to the grant were met. No funds have been withheld.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>22. GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>22.3 National: MIG Funds</b>		
Balance unspent at beginning of year	652,214	2,953,169
Current year receipts	11,186,000	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Own Income	(6,244,909)	(2,025,323)
Conditions met - transferred to Revenue: Capital Expenses	(874,287)	(275,632)
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>4,719,018</u>	<u>652,214</u>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas (included in the Roads and Sewerage votes in Appendix "B"). No funds have been withheld.

At yearend, not all conditions were met in respect to the upgrading of infrastructure as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at year end.

**22.4 National: MSIG Funds**

Balance unspent at beginning of year	-	-
Current year receipts	790,000	750,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(790,000)	(750,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>-</u>	<u>-</u>

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. All conditions attached to the grant were met. No funds have been withheld.

**22.5 Provincial: Department Minerals & Energy (Eskom Grant)**

Balance unspent at beginning of year	271,000	271,000
Current year receipts	2,500,000	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(2,223,976)	-
Conditions met - transferred to Revenue: Capital Expenses	(276,024)	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>271,000</u>	<u>271,000</u>

This grant was used to cover the cost relating to the water testing. All conditions attached to the grant were met. No funds have been withheld.

**22.6 National: Department of Water Affairs**

Balance unspent at beginning of year	-	-
Current year receipts	4,526,972	179,119
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(409,513)	(179,119)
Conditions met - transferred to Revenue: Capital Expenses	(4,117,459)	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>-</u>	<u>-</u>

The DME allocates funds on an annual basis to ensure that infrastructure is maintained and improved. The grant was utilised for this purpose. All conditions attached to the grant were met. No funds have been withheld.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>22. GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>22.7 Other: Pixley Project</b>		
Balance unspent at beginning of year	-	-
Current year receipts	-	100,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	(100,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>-</u>	<u>-</u>

This grant was allocated for eradication of the housing backlog that may exist in the Municipal boundaries. All conditions attached to the grant were met. No funds have been withheld.

**22.8 Provincial: LED Economic Growth & Development Grant**

Balance unspent at beginning of year	1,426,147	821,924
Current year receipts	-	12,949,178
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(2,135,427)	-
Conditions met - transferred to Revenue: Capital Expenses	(298,960)	(10,828,908)
Conditions met - transferred to Revenue: Own Income	-	(1,516,047)
Other transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>(1,008,240)</u>	<u>1,426,147</u>

This grant was allocated for the development of the Diverse Parking System. All conditions attached to the grant were met. No funds have been withheld.

**22.9 Provincial: Library**

Balance unspent at beginning of year	-	-
Current year receipts	457,000	350,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(457,000)	(350,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>-</u>	<u>-</u>

This grant was allocated for the upgrading of library equipment and operating expenses. All conditions attached to the grant were met. No funds have been withheld.

**22.10 National: RBI**

Balance unspent at beginning of year	-	-
Current year receipts	3,744,394	350,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	(350,000)
Conditions met - transferred to Revenue: Capital Expenses	(3,744,394)	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>-</u>	<u>-</u>

This grant was allocated for the assistance in water networks and operating expenditure. All conditions attached to the grant were met. No funds have been withheld.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>22. GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>22.11 Other Government</b>		
Balance unspent at beginning of year	-	-
Current year receipts	293,290	420,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(293,290)	(420,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>0</u>	<u>-</u>

The District Municipality allocates funds on an annual basis to ensure that infrastructure is maintained and improved. The grant was utilised for this purpose. All conditions attached to the

**22.12 Changes in levels of Government Grants**

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2010), government grant funding is expected to increase over the forthcoming three financial years.

**23. SERVICE CHARGES**

Sale of Electricity	7,640,932	6,327,283
Sale of Water	2,545,970	1,655,901
Refuse Removal	1,120,634	1,010,616
Sewerage and Sanitation Charges	2,041,644	1,845,077
Other Service Charges	-	-
<b>Total Service Charges</b>	<u><b>13,349,179</b></u>	<u><b>10,838,877</b></u>
Attributable to:		
Continuing Operations	13,349,179	10,838,877
Discontinued Operations	-	-
	<u><b>13,349,179</b></u>	<u><b>10,838,877</b></u>

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

**24. RENTAL OF FACILITIES AND EQUIPMENT**

Rental Revenue from Halls	179,616	132,653
Rental Revenue from Land	24,118	22,527
Rental Revenue from Other Facilities	81,624	31,474
<b>Total Rental of Facilities and Equipment</b>	<u><b>285,357</b></u>	<u><b>186,654</b></u>
Attributable to:		
Continuing Operations	285,357	186,654
Discontinued Operations	-	-
	<u><b>285,357</b></u>	<u><b>186,654</b></u>

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>25. INTEREST EARNED</b>		
<b>External Investments:</b>		
Bank Account	-	-
Investments	124,512	37,679
	<u><b>124,512</b></u>	<u><b>37,679</b></u>
<b>Outstanding Debtors:</b>		
Outstanding Billing Debtors	600,520	609,825
	<u><b>600,520</b></u>	<u><b>609,825</b></u>
<b>Total Interest Earned</b>	<u><b>725,032</b></u>	<u><b>647,504</b></u>
Interest Earned on Financial Assets, analysed by category of asset, is as follows:		
Available-for-Sale Financial Assets	124,512	37,679
Loans and Receivables	600,520	609,825
	<u>725,032</u>	<u>647,504</u>
Interest Earned on Non-financial Assets	-	-
	<u><b>725,032</b></u>	<u><b>647,504</b></u>
<b>26. OTHER REVENUE</b>		
Building Plan Fees	117,697	38,263
Insurance Claims	59,483	-
Own Income VAT	1,042,351	1,791,719
Profit on Secure Centre Project	-	-
Tender Documents	18,800	-
Other Income	326,938	253,860
Commission on Collections	33,038	33,151
<b>Total Other Revenue</b>	<u><b>1,598,307</b></u>	<u><b>2,116,993</b></u>
Attributable to:		
Continuing Operations	1,598,307	2,116,993
Discontinued Operations	-	-
	<u><b>1,598,307</b></u>	<u><b>2,116,993</b></u>
The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 21 to 25, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.		
<b>27. EMPLOYEE RELATED COSTS</b>		
Employee Related Costs - Salaries and Wages	8,608,137	8,016,815
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	1,588,579	2,318,226
Group Life	23,823	24,703
Medical	319,931	1,135,137
Pension	1,177,994	1,028,466
UIF	63,046	57,894
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	349,432	238,808
Allowances	349,432	238,808
Housing Benefits and Allowances	109,847	83,553
Overtime Payments	790,027	893,147
Bonusses	596,825	725,537
Long Term Service	108,589	56,244
<b>Total Employee Related Costs</b>	<u><b>12,151,438</b></u>	<u><b>12,332,330</b></u>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>27. EMPLOYEE RELATED COSTS (Continued)</b>		
Attributable to:		
Continuing Operations	12,151,438	12,332,330
Discontinued Operations	-	-
	<u><b>12,151,438</b></u>	<u><b>12,332,330</b></u>

**Remuneration of Section 57 Employees:**

***Remuneration of the Municipal Manager***

Annual Remuneration	185,107	-
Performance Bonus	-	-
Car and Other Allowances	84,619	-
Company Contributions to UIF, Medical and Pension Funds	9,003	-
<b>Total</b>	<u><b>278,729</b></u>	<u><b>-</b></u>

The post was vacant until 31 December 2011. An Acting Allowance was paid for the period 1 July 2011 to 13 January 2012.

***Remuneration of the Chief Financial Officer***

Annual Remuneration	409,956	438,400
Performance Bonus	-	-
Car and Other Allowances	84,619	134,431
Company Contributions to UIF, Medical and Pension Funds	9,003	63,230
<b>Total</b>	<u><b>503,578</b></u>	<u><b>636,061</b></u>

***Remuneration of the Manager: Corporate Services***

Annual Remuneration	244,818	339,630
Performance Bonus	-	-
Car and Other Allowances	74,777	111,389
Company Contributions to UIF, Medical and Pension Funds	37,530	75,411
<b>Total</b>	<u><b>357,125</b></u>	<u><b>526,429</b></u>

The post was vacant until 11 May 2012. An Acting Allowance was paid for the period 1 July 2011 to 31 January 2011.

***Remuneration of the Manager: Technical Services***

Annual Remuneration	281,238	-
Performance Bonus	-	-
Car and Other Allowances	28,528	-
Company Contributions to UIF, Medical and Pension Funds	-	-
<b>Total</b>	<u><b>309,766</b></u>	<u><b>-</b></u>

The post was vacant until 30 June 2012. An Acting Allowance was paid for the period 1 July 2011 to 30 June 2012.

No compensation was payable to key management personnel in terms of IAS 19 as at 30 June.

**28. REMUNERATION OF COUNCILLORS**

Mayor	446,152	430,549
Speaker	-	-
Councillors	661,080	493,274
Company Contributions to UIF, Medical and Pension Funds	190,656	82,690
Other Allowances (Cellular Phones, Housing, Transport, etc)	369,282	374,583
<b>Total Councillors' Remuneration</b>	<u><b>1,667,171</b></u>	<u><b>1,381,097</b></u>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>29. DEPRECIATION AND AMORTISATION</b>		
Depreciation: Property, Plant and Equipment	10,121,071	10,562,469
Amortisation: Intangible Assets	5,645	2,883
<b>Total Depreciation and Amortisation</b>	<b>10,126,716</b>	<b>10,565,352</b>
Attributable to:		
Continuing Operations	10,126,716	10,565,352
Discontinued Operations	-	-
	<b>10,126,716</b>	<b>10,565,352</b>
<b>30. IMPAIRMENT LOSSES</b>		
<i>30.1 Impairment Losses on Financial Assets</i>		
<b>Impairment Losses Recognised:</b>	5,982,770	24,721,036
Consumer Debtors	5,258,669	23,623,866
Other Debtors	724,101	1,097,170
	<b>5,982,770</b>	<b>24,721,036</b>
<b>Total Impairment Losses</b>	<b>5,982,770</b>	<b>24,721,036</b>
Attributable to:		
Continuing Operations	5,982,770	24,721,036
Discontinued Operations	-	-
	<b>5,982,770</b>	<b>24,721,036</b>
<b>31. FINANCE COSTS</b>		
The municipality did not incur any Finance Cost.		
Bank Overdraft	182	-
External Loans	171,740	307,570
Other	204,738	36,828
Total Interest Expense	376,660	344,399
Less: Amounts included in the Cost of qualifying Assets	-	-
<b>Total Interest Paid on External Borrowings</b>	<b>376,660</b>	<b>344,399</b>
Attributable to:		
Continuing Operations	376,660	344,399
Discontinued Operations	-	-
	<b>376,660</b>	<b>344,399</b>

The weighted average capitalisation rate on funds borrowed generally is 5,27% per annum (2011: 5,24% per annum).



**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>32. BULK PURCHASES</b>		
Electricity	7,422,636	5,679,755
Water	267,896	158,699
<b>Total Bulk Purchases</b>	<b><u>7,690,533</u></b>	<b><u>5,838,454</u></b>
Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from various sources in the municipal boundaries.		
<b>33. CONTRACTED SERVICES</b>		
Other Contracted Services	3,834,225	749,550
<b>Total Contracted Services</b>	<b><u>3,834,225</u></b>	<b><u>749,550</u></b>
Attributable to:		
Continuing Operations	3,834,225	749,550
Discontinued Operations	-	-
	<b><u>3,834,225</u></b>	<b><u>749,550</u></b>
<b>34. GRANTS AND SUBSIDIES PAID</b>		
Community Projects	-	-
Other Grants and Subsidies Paid	411,813	-
<b>Total Grants and Subsidies</b>	<b><u>411,813</u></b>	<b><u>-</u></b>
<b>35. GENERAL EXPENSES</b>		
Included in General Expenses are the following:		
Administrative costs	130,545	69,113
Insurance	522,180	453,644
Auditors Cost	1,413,018	1,041,335
Bank Costs	129,517	106,790
Equipment	38,347	16,722
Electricity	280,597	242,905
Fuel & Oil	509,124	521,644
Legal Costs	21,860	417,740
Municipal Services	120,748	188,331
Office Expenditure	23,999	80,834
Operating Leases	575,326	336,763
Postal Costs & Telephone	452,940	407,456
Railage & Travelling Cost	699,667	319,023
Sanitation	-	186,156
Security Clothing	40,845	38,661
Seta Training Cost	125,615	95,227
Software License	146,285	119,014
Stationary	334,776	315,219
Other	4,669,871	2,109,058
<b>Total General Expenses</b>	<b><u>10,235,258</u></b>	<b><u>7,065,634</u></b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>36. PRIOR PERIOD ERRORS</b>		
Corrections were made and appropriated to the Accumulated Surplus Account during the financial years ended 30 June. Details of the appropriations are as follows:		
<b>Statement of Financial Position:</b>		
Other Receivables from Non-Exchange Transactions		5,450
Property, Plant and Equipment		-604,668
Intangible Assets		2,476
Provisions		-15,885
Creditors from Exchange Transactions		-1,267,595
Operating Lease Liabilities/ Payables		-4,356
Accumulated Surplus / (Deficit) - Opening balance		709,877
		<u><u>(1,174,701)</u></u>
<b>Statement of Financial Performance:</b>		
Revenue		341,308
Employee Related Costs		328,975
Depreciation and Amortisation		-284,686
Finance Costs		432,603
General Expenses		356,502
		<u><u>1,174,702</u></u>
<b>36.1 Retstatements in Property Plant &amp; Equipment</b>		
During the financial year it was found that Property Plant and Equipment was overstated in the previous year due to errors encountered.		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Position:</b>		
(Increase) / decrease in Accumulated Surplus	-	(10,344)
Increase / (decrease) in Property, Plant & Equipment	-	23,707
<b>Statement of Financial Position:</b>		
Increase / (Decrease) in Depreciation	-	3,648
Increase / (Decrease) in General Expenses	-	(17,011)
	<u><u>-</u></u>	<u><u>-</u></u>
<b>36.2 Prior year creditors not provided for:</b>		
During the current financial year a number of creditors (which were paid in 2011/2012) were for expenses incurred in the 2010/2011 financial year. These were retrospectively corrected.		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Position:</b>		
(Increase) / decrease in Creditors from Exchange Transactions	(421,808)	(421,808)
<b>Statement of Financial Performance:</b>		
Increase / (decrease) in General Expenses	386,167	386,167
Increase / (decrease) in Finance Cost	35,640	35,640
	<u><u>-</u></u>	<u><u>-</u></u>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**36. PRIOR PERIOD ERRORS (Continued)**

**36.3 Prior year provision for bonuses:**

The 2010/2011 provision for bonuses were subsequently corrected in order to ensure the balance is accurately reflected.

**The effect of the Correction of Error is as follows:**

**Statement of Financial Position:**

	2012 R	2011 R
(Increase) / decrease in Creditors from Exchange Transactions	(260,737)	(260,737)

**Statement of Financial Performance:**

Increase / (decrease) in Employee Related Costs	260,737	260,737
	-	-
	-	-

**36.4 Wrongful accounting for Landfill Sites**

During the 2010/2011 year Landfill sites was wrongly accounted for, in that amount interest expense was capitalised against the asset and not the corresponding expense. This error in application of the standard was corrected.

**The effect of the Correction of Error is as follows:**

**Statement of Financial Position:**

(Increase) / decrease in Accumulated Surplus	551,200	551,200
Increase / (decrease) in Property, Plant & Equipment	(645,385)	(645,385)
(Increase) / decrease in Provision	(15,885)	(15,885)

**Statement of Financial Performance:**

Increase / (decrease) in Finance Cost	396,962	396,962
Increase / (decrease) in Depreciation	(286,892)	(286,892)
	0	0
	0	0

**36.5 Operating Lease:**

During the year it was found that operating leases was not disclosed properly and straight lined accordingly

**The effect of the Correction of Error is as follows:**

**Statement of Financial Position:**

(Increase) / decrease in Operating Lease Liabilities	(4,356)	(4,356)
--	---------	---------

**Statement of Financial Performance:**

Increase / (decrease) in General Expenses	4,356	4,356
	-	-
	-	-

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>36. PRIOR PERIOD ERRORS (Continued)</b>		
<b><i>36.7 Correction of post retiremant benefits paid</i></b>		
During the 2011/2012 financial year , it was found that post retirement benefits paid was wrongfully allocated to debtors.		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Position:</b>		
(Increase) / decrease in Accumulated Surplus	170,055	170,055
Increase / (decrease) in Trade Receivables from Non Exchange Transactions	(238,293)	(238,293)
<b>Statement of Financial Performance:</b>		
Increase / (decrease) in Employee Related Costs	68,238	68,238
	<u>-</u>	<u>-</u>
<b><i>36.8 Debtors with credit balances not accounted for</i></b>		
During the year under review was it found that the trade receivables with credit balances was not accounted for.		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Position:</b>		
Increase / (decrease) in Trade Receivables from Non Exchange Transactions	243,743	243,743
(Increase) / decrease in Trade Payables from Exchange Transactions	(585,050)	(585,050)
<b>Statement of Financial Performance:</b>		
(Increase) / decrease in Revenue	341,308	341,308
	<u>-</u>	<u>-</u>
<b><i>36.9 Amortisation expense restated:</i></b>		
During the review of the Intangible Asset Register, it was found that the amortisation expense for the 2011 financial year was overstated. This was subsequently corrected.		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Position:</b>		
(Increase) / decrease in Accumulated Surplus	(1,034)	(1,034)
Increase / (decrease) in Intangible Assets	2,476	2,476
<b>Statement of Financial Performance:</b>		
Increase / (decrease) in Amortisation Expense	(1,442)	(1,442)
	<u>(0)</u>	<u>(0)</u>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>37. CASH GENERATED BY OPERATIONS</b>		
Surplus / (Deficit) for the Year	2,836,003	(20,739,146)
Adjustment for:		
Correction of Prior Year Errors	(46,388)	(709,877)
Depreciation and Amortisation	10,126,716	10,564,186
Other Movement on Property, Plant and Equipment		636,289
Other Movement on Intangible Assets		(1,034)
Contribution to Retirement Benefit Liabilities	(284,018)	544,876
Contribution to Provisions - Current	151,314	513,911
Contribution to Provisions - Non-current	480,948	(13,356)
Contribution to Provisions - Long Service Award	75,137	340,670
Investment Income	(725,032)	(647,504)
Finance Costs	376,660	344,399
<b>Operating surplus before working capital changes</b>	<b>12,991,340</b>	<b>(9,166,586)</b>
Decrease/(Increase) in Inventories	(52,349)	(146,171)
Decrease/(Increase) in Trade Receivables from Exchange Transactions	(103,553)	19,997,906
Decrease/(Increase) in Trade Receivables from Non-exchange Transactions	(493,948)	3,749,455
Decrease/(Increase) in VAT Receivable	(531,630)	(780,446)
Increase/(Decrease) in Consumer Deposits	46,071	13,369
Increase/(Decrease) in Creditors	4,140,675	2,231,224
Increase/(Decrease) in Conditional Grants and Receipts	2,640,658	(1,696,733)
Increase/(Decrease) in Operating Lease Liabilities	91,092	3,087
<b>Cash generated by / (utilised in) Operations</b>	<b>18,728,357</b>	<b>14,205,106</b>

**38. NON-CASH INVESTING AND FINANCING TRANSACTIONS**

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2011/12 financial year.

**39. FINANCING FACILITIES**

The municipality did not have any Financing Facilities available at any time during the two financial years.

**40. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION**

Long-term Liabilities (See Note 18)	5,734,572	12,766,499
Used to finance Property, Plant and Equipment - at cost	(5,734,572)	(12,766,499)
Sub-total	-	-

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**                      **2011**  
**R**                              **R**

**41. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**41.1 Unauthorised Expenditure**

To management's best of knowledge no Unauthorised Expenditure was incurred during the year under review.

Reconciliation of Unauthorised Expenditure:

Opening balance	44,996,091	11,043,090
Unauthorised Expenditure current year	3,308,397	33,953,001
Approved by Council or condoned	-	-
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	-
Unauthorised Expenditure awaiting authorisation	<u><b>48,304,488</b></u>	<u><b>44,996,091</b></u>

Incident	Disciplinary Steps / Criminal Proceedings
Budgeted votes exceeded:-	
- Electrical R 3,145,851	To be condoned by Council
- Properties R 64,859	To be condoned by Council
- Support Services R 97,687	To be condoned by Council

**41.2 Fruitless and Wasteful Expenditure**

To management's best of knowledge instances of note indicating that Fruitless and Wasteful Expenditure was incurred during the year under review were not revealed.

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	1,166,329	1,009,116
Fruitless and Wasteful Expenditure current year	351,971	157,213
Approved or written off by Council	-	-
To be recovered – contingent asset (see Note 51)	-	-
Transfer to receivables for recovery (see Note 5)	-	-
Fruitless and Wasteful Expenditure awaiting condonement	<u><b>1,518,300</b></u>	<u><b>1,166,329</b></u>

Incident	Disciplinary Steps / Criminal Proceedings
Interest Paid on Creditors - R172 195	To be condoned by Council
Court case: Demas/ Thenbelihle Local Municipality	The Municipality was involved in a legal matter relating to the unfair dismissal of PF Demas. The SALGBC concluded that PF Demas was unfairly dismissed and the Municipality settled the matter and was ordered to pay the plaintiff a total amount of R141 633.40. The amount was remuneration from February 2012 to May 2012, which would be settled on 5 months starting 1 July. The municipality was also ordered to reinstate PF Demas, which resulted in a salary being paid to the value of R35 408.25 for June. Resulting in total fruitless expenditure of R 177 041.25. No disciplinary steps was taken.
Lost of consumer debtor payments- R 2 735	To be condoned by Council

**41.3 Irregular Expenditure**

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

**42. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**42.1 Contributions to organised local government - SALGA**

Opening Balance	196,992	96,992
Council Subscriptions	203,008	100,000
Amount Paid - current year	-	-
<b>Balance Unpaid (included in Creditors)</b>	<u><b>400,000</b></u>	<u><b>196,992</b></u>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>42. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)</b>		
<b>42.2 Audit Fees</b>		
Opening Balance	2,307,824	632,723
Current year Audit Fee	1,652,526	1,675,100
Amount Paid - current year	-	-
<b>Balance Unpaid (included in Creditors)</b>	<b>3,960,349</b>	<b>2,307,824</b>

**42.3 VAT**

The net of VAT input payables and VAT output receivables are shown in Note 6. Some VAT returns was submitted late.

**42.4 PAYE, Skills Development Levy and UIF**

Opening Balance	-	-
Current year Payroll Deductions	1,703,949	1,038,805
Amount Paid - current year	(1,703,949)	(1,038,805)
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>

**42.5 Pension and Medical Aid Deductions**

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	1,317,538	1,811,249
Amount Paid - current year	(1,317,538)	(1,811,249)
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>

**42.6 Councillor's arrear Consumer Accounts**

The following Councillors had arrear accounts outstanding for more than 90 days as at:

<b>30 June 2012</b>		<b>Total</b>	<b>Outstanding up to 90 days</b>	<b>Outstanding more than 90 days</b>
Madikane SE	Member	198	198	-
De Bruin E	Member	1,055	1,055	-
Jonas DA	Mayor	103,899	26,480	77,419
Humphreys MA	Member	86,334	1,770	84,564
<b>Total Councillor Arrear Consumer Accounts</b>		<b>191,487</b>	<b>29,504</b>	<b>161,983</b>

<b>30 June 2011</b>		<b>Total</b>	<b>Outstanding up to 90 days</b>	<b>Outstanding more than 90 days</b>
MA Humphreys		93,011	524	92,487
D Jonas		34,746	19,594	15,152
P Louw		42,336	499	41,837
E De Bruin		32,248	1,040	31,209
F Mtsila		2,417	2,417	-
SBC Oliphant		26,222	420	25,802
<b>Total Councillor Arrear Consumer Accounts</b>		<b>230,979</b>	<b>24,493</b>	<b>206,486</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**42. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)**

During the year the following Councillors had arrear accounts outstanding for more than 90 days:

		<b>Highest amount outstanding</b>	<b>Ageing</b>
<b>30 June 2012</b>			
Jonas DA	Mayor	77,419	> 90 Days
Humphreys MA	Member	84,564	> 90 Days
<b>30 June 2011</b>			
MA Humphreys		92,487	> 90 Days
D Jonas		15,152	> 90 Days
P Louw		41,837	> 90 Days
E De Bruin		31,209	> 90 Days
SBC Oliphant		25,802	> 90 Days

**42.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act**

No known matters existed at reporting date.

**42.8 Deviation from, and ratification of minor breaches of, the Procurement Processes**

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

The Deviation Register is available for inspection at the municipality.



**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**43. FINANCIAL INSTRUMENTS**

**43.1 Classification**

**FINANCIAL ASSETS:**

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

<u>Financial Assets</u>	<u>Classification</u>		
<b>Receivables from exchange transactions</b>			
Electricity	Loans and receivables	636,389	532,389
Refuse	Loans and receivables	42,917	37,467
Sewerage	Loans and receivables	83,921	73,413
Water	Loans and receivables	82,573	51,457
Loan Instalments	Loans and receivables	-	-
Other Debtors	Loans and receivables	15,112	62,633
<b>Receivables from non-exchange transactions</b>			
Assessment Rates	Loans and receivables	41,797	279,206
Government Subsidy Claims	Loans and receivables	1,008,242	-
Creditors with Debit Balances	Loans and receivables	77,840	-
Sundry Debtors	Loans and receivables	343,063	697,788
<b>Bank, Cash and Cash Equivalents</b>			
Call Deposits	Available for sale	2,374,258	1,353,566
Bank Balances	Available for sale	689,673	737,690
Cash Floats and Advances	Available for sale	2,216	320
<b>SUMMARY OF FINANCIAL ASSETS</b>			
<b>Loans and Receivables</b>			
Consumer Debtors	Assessment Rates	41,797	279,206
Consumer Debtors	Electricity	636,389	532,389
Consumer Debtors	Refuse	42,917	37,467
Consumer Debtors	Sewerage	83,921	73,413
Consumer Debtors	Water	82,573	51,457
Consumer Debtors	Other Debtors	15,112	62,633
Other Debtors	Government Subsidy Claims	1,008,242	-
Other Debtors	Creditors with Debit Balances	77,840	-
Other Debtors	Sundry Debtors	343,063	697,788
		2,331,854	1,734,353
<b>Available for Sale:</b>			
Bank Balances and Cash	Bank Balances	689,673	737,690
Bank Balances and Cash	Cash Floats and Advances	2,216	320
Bank Balances and Cash	Call Deposits	2,374,258	1,353,566
		3,066,147	2,091,576
<b>Total Financial Assets</b>		<b>5,398,002</b>	<b>3,825,929</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

		2012 R	2011 R
<b>43. FINANCIAL INSTRUMENTS (Continued)</b>			
<b>FINANCIAL LIABILITIES:</b>			
In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):			
	<u><b>Financial Liabilities</b></u>		<u><b>Classification</b></u>
<b>Long-term Liabilities</b>			
Annuity Loans	Financial liabilities at amortised cost	5,668,154	3,743,081
<b>Consumer Deposits</b>			
Electricity and Water	Financial liabilities at FVTPL	422,395	376,324
<b>Creditors from Exchange Transactions</b>			
Trade Creditors	Financial liabilities at amortised cost	9,402,231	5,536,134
Accrued Leave	Financial liabilities at amortised cost	666,035	741,021
Sundry Deposits	Financial liabilities at amortised cost	161,135	168,686
Other Creditors	Financial liabilities at amortised cost	829,547	585,739
<b>Bank Overdraft</b>			
Bank Overdraft	Financial liabilities at amortised cost	-	-
<b>Current Portion of Long-term Liabilities</b>			
Annuity Loans	Financial liabilities at amortised cost	66,418	1,838,979
<b>SUMMARY OF FINANCIAL LIABILITIES</b>			
<b>Financial Liabilities at Amortised Cost:</b>			
Long-term Liabilities	Annuity Loans	5,668,154	3,743,081
Consumer Deposits	Electricity and Water	422,395	376,324
Creditors from Exchange Transactions	Trade Creditors	9,402,231	5,536,134
Creditors from Exchange Transactions	Accrued Leave	666,035	741,021
Creditors from Exchange Transactions	Sundry Deposits	161,135	168,686
Creditors from Exchange Transactions	Other Creditors	829,547	585,739
Bank Overdraft	Bank Overdraft	-	-
Current Portion of Long-term Liabilities	Annuity Loans	66,418	1,838,979
<b>Total Financial Liabilities</b>		<b>17,215,916</b>	<b>12,989,965</b>

**43.2 Fair Value**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

**Cash and short-term investments**

The carrying amount approximates fair value because of the short maturity of those instruments.

**Available-for-sale investments**

The fair values of some investments are estimated, based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

**Loan receivables/payables**

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and, therefore, the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed-interest-rate instruments are fair-valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**Trade and other receivables/payables**

The fair value of trade and other payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The fair value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the the current payment ratio's of the municipality's debtors.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**43. FINANCIAL INSTRUMENTS (Continued)**

**Other Financial Assets and Liabilities**

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

**Long-term Liabilities**

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

In accordance with IAS 39.09 the Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements to approximate their fair values on 30 June 2012, as a result of the short-term maturity of these assets and liabilities.

	<b>2012</b>		<b>2011</b>	
	<b>Carrying Amount R</b>	<b>Fair Value R</b>	<b>Carrying Amount R</b>	<b>Fair Value R</b>
<b>FINANCIAL ASSETS</b>				
<b>Loans and Receivables</b>	2,331,854	2,331,854	1,734,353	1,734,353
Consumer Debtors	902,709	902,709	1,036,566	1,036,566
Other Debtors	1,429,145	1,429,145	697,788	697,788
<b>Available for Sale</b>	3,066,147	3,066,147	2,091,576	2,091,576
Bank Balances and Cash	3,066,147	3,066,147	2,091,576	2,091,576
<b>Total Financial Assets</b>	<b>5,398,002</b>	<b>5,398,002</b>	<b>3,825,929</b>	<b>3,825,929</b>
	<b>2012</b>		<b>2011</b>	
	<b>Carrying Amount R</b>	<b>Fair Value R</b>	<b>Carrying Amount R</b>	<b>Fair Value R</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Amortised Cost</b>				
Unsecured Bank Facilities:	5,668,154	5,668,154	3,743,081	3,743,081
- Annuity Loans	5,668,154	5,668,154	3,743,081	3,743,081
- Bank Overdraft	-	-	-	-
Trade and Other Payables:	11,547,761	11,547,761	9,246,883	9,246,883
- Consumer Deposits	422,395	422,395	376,324	376,324
- Creditors from Exchange Transactions	11,058,948	11,058,948	7,031,580	7,031,580
- Current Portion of Long-term Liabilities	66,418	66,418	1,838,979	1,838,979
<b>Total Financial Liabilities</b>	<b>17,215,916</b>	<b>17,215,916</b>	<b>12,989,965</b>	<b>12,989,965</b>
<b>Total Financial Instruments</b>	<b>(11,817,914)</b>	<b>(11,817,914)</b>	<b>(9,164,035)</b>	<b>(9,164,035)</b>
<b>Unrecognised Gain / (Loss)</b>		-		-

At the reporting date there are no significant concentrations of credit risk for Loans and Receivables at Fair Value. The carrying amount reflected above represents the municipality's maximum exposure to credit risk for such loans and receivables.

There were no reclassifications of financial assets during the financial period.

**Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities**

The table below analyses financial instruments carried at fair value at the end of the reporting period, by level of fair-value hierarchy as required by IFRS 7. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments, and the levels have been defined as follows:

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**43. FINANCIAL INSTRUMENTS (Continued)**

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments, where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	<b>2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value</b>	-	-	3,066,147	3,066,147
Bank Balances and Cash			3,066,147	3,066,147
<b>Total Financial Assets</b>			<b>3,066,147</b>	<b>3,066,147</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value</b>	-	-	6,090,550	6,090,550
Unsecured Bank Facilities:				
- Annuity Loans			5,668,154	5,668,154
- Consumer Deposits			422,395	422,395
<b>Total Financial Liabilities</b>			<b>6,090,550</b>	<b>6,090,550</b>
<b>Total Financial Instruments</b>	<b>-</b>	<b>-</b>	<b>(3,024,402)</b>	<b>(3,024,402)</b>

	<b>2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value</b>	-	-	2,091,576	2,091,576
Bank Balances and Cash			2,091,576	2,091,576
<b>Total Financial Assets</b>			<b>2,091,576</b>	<b>2,091,576</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value</b>	-	-	4,119,406	4,119,406
Unsecured Bank Facilities:				
- Annuity Loans			3,743,081	3,743,081
- Consumer Deposits			376,324	376,324
<b>Total Financial Liabilities</b>			<b>4,119,406</b>	<b>4,119,406</b>
<b>Total Financial Instruments</b>	<b>-</b>	<b>-</b>	<b>(2,027,830)</b>	<b>(2,027,830)</b>

**43.3 Capital Risk Management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 15, Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 20 and the Statement of Changes in Net Assets.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**                      **2011**  
**R**

**43. FINANCIAL INSTRUMENTS (Continued)**

**Gearing Ratio**

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 95,00%, reducing 90,00%. This aggressive ratio is as a result of the development challenges faced by the municipality. The rate of borrowing is well below market related rates.

The gearing ratio at the year-end was as follows:

Debt	11,481,344	7,407,905
Bank, Cash and Cash Equivalents	3,066,147	2,091,576
Net Debt	<u>14,547,491</u>	<u>9,499,480</u>
Equity	<u>1,179,365,684</u>	<u>1,049,322,116</u>
<b>Net debt to equity ratio</b>	<u><b>0.01</b></u>	<u><b>0.01</b></u>

Debt is defined as Long- and Short-term Liabilities, as detailed in Note 4.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance.

**RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES**

**43.4 Financial Risk Management Objectives**

The Accounting Officer has overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the Municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Further quantitative disclosures are included throughout these financial statements.

**43.5 Disclosure of significant risks**

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The Municipality has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Risks and exposure are disclosed as follows:

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Credit Risk**

Credit risk is the risk of financial loss to the Municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality's receivables from customers and investment securities.

**Liquidity Risk**

Liquidity risk is the risk that the Municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**                      **2011**  
**R**                                      **R**

**43. FINANCIAL INSTRUMENTS (Continued)**

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 43.8 to the annual financial statements.

**43.6 Market Risk**

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

**43.6.1 Interest Rate Risk Management**

*Interest Rate Risk* is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings, such borrowing being below market related rates.

**Interest Rate Sensitivity Analysis**

The sensitivity analysis below was determined based on the exposure to interest rates at the reporting date. For variable rate long-term instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Notes 49.7 and 49.8 below.

***Effect of a change in interest rate on interest bearing financial assets and liabilities:***

<b><u>Financial Assets</u></b>	<b><u>Classification</u></b>		
<b><u>External investments:</u></b>			
Call Deposits	Available for Sale	2,374,258	1,353,566
Bank Balances	Available for Sale	689,673	737,690
Cash Floats and Advances	Available for Sale	2,216	320
		<b>3,066,147</b>	<b>2,091,576</b>
<b><u>Interest received</u></b>			
Interest Earned - External Investments		124,512	37,679
Interest rate		4%	2%
<b><u>Effect of a change in interest rate on interest earned from external investments:</u></b>			
Effect of change in interest rate	%	3%	9%
Effect of change in interest rate	Rand value	93,851	188,242
Effect of change in interest rate	%	5%	11%
Effect of change in interest rate	Rand value	155,174	230,073
<b><u>Outstanding debtors:</u></b>			
Consumer Debtors	Loans and receivables	902,709	1,036,566
Sundry Debtors	Loans and receivables	1,429,145	697,788
		<b>2,331,854</b>	<b>1,734,353</b>
<b><u>Interest received</u></b>			
Interest Earned - Outstanding Debtors		600,520	609,825
Interest rate		26%	35%

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

		2012 R	2011 R
<b>43. FINANCIAL INSTRUMENTS (Continued)</b>			
<b><i>Effect of a change in interest rate on interest earned from outstanding debtors</i></b>			
Effect of change in interest rate	%	25%	34%
Effect of change in interest rate	Rand value	577,201	592,482
		<u>577,201</u>	<u>592,482</u>
Effect of change in interest rate	%	27%	36%
Effect of change in interest rate	Rand value	623,838	627,169
		<u>623,838</u>	<u>627,169</u>
<b><u>Financial Liabilities</u></b>	<b><u>Classification</u></b>		
<b><u>Long-term Liabilities</u></b>			
Annuity Loans	Not valued at FVTPL	5,668,154	3,743,081
Annuity Loans - current portion	Not valued at FVTPL	66,418	1,838,979
		<u>5,734,572</u>	<u>5,582,060</u>
<b><u>Interest paid</u></b>			
Long-term Liabilities		182	307,570
		<u>182</u>	<u>307,570</u>
Interest rate %			6%
			<u>6%</u>
<b><i>Effect of a change in interest rate on interest paid on long-term liabilities</i></b>			
Effect of change in interest rate	%	-1%	5%
Effect of change in interest rate	Rand value	-57,164	251,750
		<u>-57,164</u>	<u>251,750</u>
Effect of change in interest rate	%	1%	7%
Effect of change in interest rate	Rand value	57,528	363,391
		<u>57,528</u>	<u>363,391</u>
<b><u>Bank Overdrafts and Other</u></b>			
Bank Overdraft	Not valued at FVTPL		
		<u></u>	<u></u>
<b><u>Interest paid</u></b>			
Bank Overdrafts and Other			
		<u></u>	<u></u>
Interest rate %			
			<u></u>
<b><i>Effect of a change in interest rate on interest paid on bank overdrafts and other</i></b>			
Effect of change in interest rate	%	-1%	-1%
Effect of change in interest rate	Rand value		
		<u></u>	<u></u>
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value		
		<u></u>	<u></u>

#### **43.6.2 Foreign Currency Risk Management**

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

#### **43.7 Credit Risk Management**

*Credit Risk* refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

#### **Investments/ Cash and Cash Equivalents**

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited creditrating agency. The Municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the Entity does not consider there to be any significant exposure to credit risk.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

<b>2012</b>	<b>2011</b>
<b>R</b>	<b>R</b>

**43. FINANCIAL INSTRUMENTS (Continued)**

**Receivables from exchange and non-exchange transactions**

Trade and other receivables are amounts owing by consumers, and are presented net of impairment losses. The Municipality has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The Municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness., subsequently the Municipality has no control over the approval of new customers who acquire properties in the designated metro area and consequently incur rates, water and electricity debts.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- through the application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.
- a new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- through the consolidation of rates and service accounts, thereby disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- through the requirement of a deposit for new service connections, serving as guarantee
- through encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The Municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained.. The Municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The Municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

*Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:*

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Consumer Debtors	35,082,324	31,834,174
Bank, Cash and Cash Equivalents	3,066,147	2,091,577
<b>Maximum Credit and Interest Risk Exposure</b>	<b>38,148,471</b>	<b>33,925,751</b>



**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**43. FINANCIAL INSTRUMENTS (Continued)**

**43.8 Liquidity Risk Management**

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 43 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

**Liquidity and Interest Risk Tables**

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
<b>30 June 2012</b>								
Non-interest Bearing			10,815,308	10,815,308	-	-	-	-
- Consumer Deposits	10	0.00%	422,395	422,395	-	-	-	-
- Creditors from Exchange Transactions	12	0.00%	10,392,913	10,392,913	-	-	-	-
Fixed Interest Rate Instruments			2,728,248	57,684	38,456	76,912	2,135,740	419,457
- DBSA (102338/1)	15	5.00%	915,479	-	-	-	762,900	152,580
- DBSA (102338/2)	15	5.00%	1,601,262	-	-	-	1,334,385	266,877
- DBSA (11932/01)	15	6.00%	134,570	36,701	24,467	48,935	24,467	-
- DBSA (12864/01)	15	6.00%	76,937	20,983	13,989	27,977	13,989	-
			<b>13,543,556</b>	<b>10,872,992</b>	<b>38,456</b>	<b>76,912</b>	<b>2,135,740</b>	<b>419,457</b>
<b>30 June 2011</b>								
Non-interest Bearing			7,407,905	7,407,905	-	-	-	-
- Consumer Deposits	10	0.00%	376,324	376,324	-	-	-	-
- Creditors from Exchange Transactions	12	0.00%	7,031,580	7,031,580	-	-	-	-
Fixed Interest Rate Instruments			10,253,036	2,621,123	411,212	822,425	2,304,320	4,093,957
- DBSA (61000547)	15	8.18%	3,360,866	1,351,826	182,640	365,280	1,461,120	-
- DBSA (61000548)	15	8.18%	6,154,780	796,023	140,533	281,067	843,200	4,093,957
- DBSA (610002019)	15	8.18%	517,475	312,581	68,298	136,596	-	-
- DBSA (61002751)	15	8.18%	219,915	160,692	19,741	39,482	-	-
			<b>17,660,940</b>	<b>10,029,027</b>	<b>411,212</b>	<b>822,425</b>	<b>2,304,320</b>	<b>4,093,957</b>

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**43. FINANCIAL INSTRUMENTS (Continued)**

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
<b>30 June 2012</b>								
Non-interest Bearing			5,398,002	5,398,002	-	-	-	-
- Trade Receivables from Exchange Transactions	3	0.00%	860,912	860,912	-	-	-	-
- Trade Receivables from Non-exchange Transactions	4	0.00%	1,470,942	1,470,942	-	-	-	-
- Cash and Cash Equivalents	6	0.00%	3,066,147	3,066,147	-	-	-	-
			<b>5,398,002</b>	<b>5,398,002</b>	-	-	-	-
<b>30 June 2011</b>								
Non-interest Bearing			3,825,931	3,825,931	-	-	-	-
- Trade Receivables from Exchange Transactions	3	0.00%	757,359	757,359	-	-	-	-
- Trade Receivables from Non-exchange Transactions	4	0.00%	976,994	976,994	-	-	-	-
- Cash and Cash Equivalents	6	0.00%	2,091,577	2,091,577	-	-	-	-
			<b>3,825,931</b>	<b>3,825,931</b>	-	-	-	-

**43.9 Other Price Risks**

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**44. MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION**

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R1 314 560 (2011: R1 028 466) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

**DEFINED CONTRIBUTION SCHEMES**

**Municipal Councillors Pension Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R1 483, 786 381 (30 June 2009: R1 341, 935 205) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

**Cape Joint Pension Fund:**

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the investment reserve of the fund amounted to R63,977 (30 June 2010: R190,464) million, with a funding level of 98,1% (30 June 2010: 100,0%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

**Cape Joint Retirement Fund:**

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R9 930,837 (30 June 2010: R7 740,205) million, with funding levels of 100,3% and 116,9% (30 June 2010: 99,9% and 100,3%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,50%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

**SALA Pension Fund:**

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R7 110,3 (30 June 2009: R6 303,7) million, with funding levels of 96,0% (30 June 2009: 96,0%). The contribution rate paid by the members (8,6%) and Council (20,78%) is sufficient to fund the benefits accruing from the fund in the future.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

2012  
R

2011  
R

**45. RELATED PARTY TRANSACTIONS**

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

**45.1 Interest of Related Parties**

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
B Mpamba	Councillor	Thembelihle Bricks CC
GD Nieuwenhuizen	Chief Financial Officer	Griqua Diamonds
Y Goibayer	Director: Corporate Services	Ubunthu Zaka Trading and Transport

**45.2 Loans granted to Related Parties**

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in Note 12 to the Annual Financial Statements.

**45.3 Compensation of Related Parties**

Compensation of Key Management Personnel and Councillors is set out in Notes 28 and 29 respectively, to the Annual Financial Statements.

**45.4 Purchases from Related Parties**

The municipality did not buy goods from any companies which can be considered to be Related Parties.

**46. CONTINGENT LIABILITIES**

**46.1 Creditors:**

*i) Alcedo Engineers*

Discussions are in process with regards to a claim by Alcedo Engineers for R 96 294. The amount is not accurate as it relates to inventory provided for by Alcedo with regards to the completion of the project for the refurbishment of the main intake. The amount can not be reliable estimated as the municipality is uncertain of the inventory that it will be able to use for the completion of the project and have not yet had discussions with Alcedo or the new supplier in this regard

**46.2 Landfill sites:**

(i) Landfill sites:

The Municipality has three active landfill sites. It has been identified that the landfill sites situated in Hopetown and Strydenburg are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).

In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

The necessary steps have been taken by the Municipality to obtain the required permits and licenses and the process has been started.

**47. CONTINGENT ASSETS**

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

**48. IN-KIND DONATIONS AND ASSISTANCE**

The municipality did not receive any In-kind Donations and Assistance during the year under review.

**THEMBELIHLE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**  
**R**

**2011**  
**R**

**49. PRIVATE PUBLIC PARTNERSHIPS**

The municipality was not a party to any Private Public Partnerships during the financial year 2011/2012.

**50. EVENTS AFTER THE REPORTING DATE**

No events having financial implications requiring disclosure occurred subsequent to 30 June 2012.

**51. COMPARATIVE FIGURES**

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 36).

**APPENDIX A**  
**THEMBELIHLE LOCAL MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012**

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2011	Ineterst Charged during period	Redeemed/ Written Off during Period	Balance at 30 June 2012
	R				R	R	R	R
<b>ANNUITY LOANS</b>								
DBSA	1,890,000	5.00%	102338/1	2024/12/31	1,710,594	50,995		1,761,589
DBSA	3,610,000	5.00%	102338/2	2024/12/31	3,676,806	99,358		3,776,164
DBSA	498,000	6.00%	11932/101	2014/12/31	124,170	13,286	(13,814)	123,642
DBSA	230,000	6.00%	12864/101	2014/12/31	70,490	8,101	(5,414)	73,177
<b>Total Annuity Loans</b>	<b>6,228,000</b>				<b>5,582,060</b>	<b>171,740</b>	<b>(19,228)</b>	<b>5,734,572</b>
<b>TOTAL EXTERNAL LOANS</b>	<b>6,228,000</b>				<b>5,582,060</b>	<b>171,740</b>	<b>(19,228)</b>	<b>5,734,572</b>

**ANNUITY LOANS:**

**DBSA loan (102338/1):**

Structured unsecured loan for provision of infrastructure. The loan terms has been adjusted from 31 December 2011. The interest rate was adjusted from 5% to 0% for 3 years and the capital outstanding of R 3 775 963.99 will be repayable along with interest of 5% quaterly for 10 year, after the period of 3 years.

**DBSA loan (102338/2):**

Structured unsecured loan for provision of infrastructure. The loan terms has been adjusted from 31 December 2011. The interest rate was adjusted from 5% to 0% for 3 years and the capital outstanding of R 3 775 963.99 will be repayable along with interest of 5% quaterly for 10 year, after the period of 3 years.

**DBSA loan (11932/101):**

Structured unsecured loan for provision of infrastructure. The loan terms has been adjusted from 31 December 2011. The capital of R133438.46 will be repayable quaterly from 1 January 2012 for a period of 3 years.

**DBSA loan (12864/101):**

Structured unsecured loan for provision of infrastructure. The loan terms has been adjusted from 31 December 2011. The capital of R76 289.95 will be repayable quaterly from 1 January 2012 for a period of 3 years.

**APPENDIX B**  
**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value
	R	R	R	R	R	R	R	R	R	R	R	R
<b>Land and Buildings</b>												
Land	28,598,250	-	-	-	-	28,598,250	-	-	-	-	-	28,598,250
Building	1,812,750	-	-	-	-	1,812,750	844,256	84,850	-	-	929,106	883,644
	<b>30,411,000</b>	-	-	-	-	<b>30,411,000</b>	<b>844,256</b>	<b>84,850</b>	-	-	<b>929,106</b>	<b>29,481,894</b>
<b>Infrastructure</b>												
<i>Electricity:</i>												
Electricity Network	17,566,341	-	2,223,976	-	-	19,790,318	9,029,217	503,678	-	-	9,532,894	10,257,424
<i>Sanitation:</i>												
Solid Waste Disposal	6,692,345	-	-	-	-	6,692,345	989,875	537,425	-	-	1,527,299	5,165,046
<i>Roads:</i>												
Roads Network	157,151,965	-	2,135,428	-	-	159,287,393	99,621,508	3,391,335	-	-	103,012,844	56,274,549
<i>Sewerage:</i>												
Sewerage Network	48,547,976	1,738,656	-	-	-	50,286,632	21,357,020	1,834,933	-	-	23,191,952	27,094,680
<i>Water:</i>												
Water Network	78,203,815	-	11,908,268	-	-	90,112,083	39,344,881	2,847,167	-	-	42,192,048	47,920,034
	<b>308,162,443</b>	<b>1,738,656</b>	<b>16,356,221</b>	-	-	<b>326,168,771</b>	<b>170,342,501</b>	<b>9,114,537</b>	-	-	<b>179,457,038</b>	<b>146,711,733</b>
<b>Community Assets</b>												
Land	688,750	-	-	-	-	688,750	-	-	-	-	-	688,750
Building	2,066,250	-	-	-	-	2,066,250	531,188	82,650	-	-	613,838	1,452,413
	<b>2,755,000</b>	-	-	-	-	<b>2,755,000</b>	<b>531,188</b>	<b>82,650</b>	-	-	<b>613,838</b>	<b>2,141,163</b>
<b>Other Assets</b>												
<i>Bins and Containers:</i>												
Household refuse bins	6,230	-	-	-	-	6,230	2,868	1,121	-	-	3,989	2,241
Bulk containers	550	-	-	-	-	550	272	99	-	-	371	179
<i>Emergency Equipment:</i>												
Fire Extinguisher	295,688	-	-	-	-	295,688	143,441	53,224	-	-	196,664	99,024
Emergency Lights	3,450	-	-	-	-	3,450	1,089	621	-	-	1,710	1,740
<i>Furniture and Fittings:</i>												
Other	527,296	12,193	-	-	-	539,489	224,763	96,099	-	-	320,862	218,627
Chairs	195,774	17,077	-	-	-	212,851	79,851	35,917	-	-	115,768	97,082
Tables Desks	213,000	19,087	-	-	-	232,087	89,530	39,595	-	-	129,125	102,963
Cabinets and Cubboards	185,850	2,456	-	-	-	188,306	84,580	33,762	-	-	118,342	69,964
<i>Motor Vehicles:</i>												
Trailers	325,600	-	-	-	-	325,600	82,358	30,538	-	-	112,896	212,704
Trucks / Bakkies	665,300	-	-	-	-	665,300	149,592	63,869	-	-	213,461	451,839
Motor Vehicles	56,100	-	-	-	-	56,100	20,196	6,732	-	-	26,928	29,172
<i>Office Equipment:</i>												
Office machines	373,525	-	-	-	-	373,525	164,695	108,335	-	-	273,030	100,495
Computer Hardware	68,859	127,463	-	-	-	196,322	30,121	30,848	-	-	60,969	135,352
Air Conditioners	100,760	53,495	-	-	(17,500)	136,755	54,383	29,005	-	(13,753)	69,634	67,121

**APPENDIX B**  
**THEMBELIHLE LOCAL MUNICIPALITY**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value
	R	R	R	R	R	R	R	R	R	R	R	R
<i>Plant and Equipment:</i>												
General	941,044	3,750	-	-	-	944,794	416,778	167,937	-	-	584,714	360,080
Telecommunications Equipment	89,600	-	-	-	-	89,600	41,081	26,790	-	-	67,871	21,730
Tractors	39,500	-	-	-	-	39,500	17,415	7,110	-	-	24,525	14,975
Compressors	12,600	-	-	-	-	12,600	5,292	2,268	-	-	7,560	5,040
Lawnmowers	138,500	-	-	-	-	138,500	37,395	62,325	-	-	99,720	38,780
Graders	238,000	-	-	-	-	238,000	117,810	42,840	-	-	160,650	77,350
	4,477,226	235,521	-	-	(17,500)	4,695,247	1,763,510	839,034	-	(13,753)	2,588,790	2,106,456
<b>Total</b>	345,805,668	1,974,177	16,356,221	-	(17,500)	364,030,017	173,481,454	10,121,071	-	(13,753)	183,588,772	180,441,245

**THEMBELIHLE MUNICIPALITY**  
**ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2012**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value
	R	R	R	R	R	R	R	R	R	R	R	R
<b>Investment Properties</b>												
Land	1,013,203	-	-	-	-	1,013,203	-	-	-	-	-	1,013,203
Building	3,380,000	-	-	-	-	3,380,000	-	-	-	-	-	3,380,000
	4,393,203	-	-	-	-	4,393,203	-	-	-	-	-	4,393,203

**THEMBELIHLE MUNICIPALITY**  
**ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2012**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value
	R	R	R	R	R	R	R	R	R	R	R	R
<b>Intangible Assets</b>												
Computer Software	8,650	16,568	-	-	-	25,218	4,952	5,645	-	-	10,596	14,622
Web Cost	-	-	-	-	-	-	-	-	-	-	-	-
	8,650	16,568	-	-	-	25,218	4,952	5,645	-	-	10,596	14,622

<b>Total Asset Register</b>	350,207,521	1,990,745	16,356,221	-	(17,500)	368,448,439	173,486,406	10,126,716	-	(13,753)	183,599,368	184,849,070
-----------------------------	-------------	-----------	------------	---	----------	-------------	-------------	------------	---	----------	-------------	-------------



[illegible]

# APPENDIX D

## THEMBELIHLE LOCAL MUNICIPALITY

### SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

2011 Actual Income	2011 Actual Expenditure	2011 Surplus/ (Deficit)	Description	2012 Actual Income	2012 Actual Expenditure	2012 Surplus/ (Deficit)
R	R	R		R	R	R
162,162	(4,153,886)	(3,991,724)	Administration	242,665	(3,668,200)	(3,425,535)
126,686	(143,847)	(17,161)	Community	203,582	(116,413)	87,169
11,034,954	(2,018,050)	9,016,904	Council	12,349,000	(2,653,584)	9,695,416
1,937,860	-	1,937,860	Disaster Management		(24,909)	(24,909)
6,341,827	(6,773,604)	(431,777)	Electrical	10,892,072	(12,144,628)	(1,252,556)
2,216,797	(33,366,054)	(31,149,256)	Finance	2,476,412	(11,196,034)	(8,719,623)
-	(11,442)	(11,442)	Interns		(344,933)	(344,933)
350,027	(658,849)	(308,822)	Libraries	1,661,594	(675,095)	986,499
-	(140,776)	(140,776)	Municipal Manager		(630,401)	(630,401)
181,237	(979,982)	(798,745)	Properties	269,742.29	(1,091,065)	(821,322)
-	-	-	Rates	2,413,931	-	2,413,931
1,623,305	(1,622,332)	972	Refuse	836,728	(2,313,340)	(1,476,612)
1,850,637	(3,659,605)	(1,808,968)	Sewerage	2,060,770	(2,871,437)	(810,668)
13,154,232	(161,878)	12,992,354	Support Services	8,682,361	(598,645)	8,083,716
18,135	(7,159,007)	(7,140,872)	Technical	32,979	(7,011,487)	(6,978,508)
4,149,930	(1,596,211)	2,553,719	Traffic	4,745,400	(3,080,734)	1,664,666
1,663,838	(3,105,250)	(1,441,412)	Water	10,831,681	(6,442,009)	4,389,673
<b>44,811,628</b>	<b>(65,550,774)</b>	<b>(20,739,146)</b>	Sub-Total	<b>57,698,916</b>	<b>(54,862,913)</b>	<b>2,836,003</b>
-	-	-	Revenue Foregone	-	-	-
<b>44,811,628</b>	<b>(65,550,774)</b>	<b>(20,739,146)</b>	<b>Total</b>	<b>57,698,916</b>	<b>(54,862,913)</b>	<b>2,836,003</b>

**APPENDIX E(1)**  
**THEMBELIHLE LOCAL MUNICIPALIT**  
**ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR**

Description	2011/2012 Actual	2011/2012 Budget	2011/2012 Variance	2011/2012 Variance
	R	R	R	%
<b>REVENUE</b>				
Property Rates	2,267,974	3,190,377	(922,403)	-40.67%
Fines	4,900,990	3,870,248	1,030,742	21.03%
Licences and Permits	31,085	57,211	(26,126)	-84.05%
Government Grants and Subsidies	34,540,992	18,123,929	16,417,063	47.53%
Service Charges	13,349,179	12,678,520	670,659	5.02%
Rental of Facilities and Equipment	285,357	272,054	13,303	4.66%
Interest Earned - External investments	124,512	86,298	38,214	30.69%
Interest Earned - Outstanding debtors	600,520	369,043	231,477	38.55%
Other Income	1,598,307	381,520	1,216,787	76.13%
<b>Total Revenue</b>	<b>57,698,916</b>	<b>39,029,200</b>	<b>18,669,716</b>	
<b>EXPENDITURE</b>				
Employee Related Costs	(12,151,438)	(13,065,299)	913,861	-7.52%
Remuneration of Councillors	(1,667,171)	(1,678,185)	11,014	-0.66%
Depreciation	(10,126,716)	(4,130,340)	(5,996,376)	59.21%
Impairment Losses	(5,982,770)	(15,000,000)	9,017,230	-150.72%
Repairs and Maintenance	(2,386,330)	(1,336,654)	(1,049,676)	43.99%
Interest Paid	(376,660)	(220,000)	(156,660)	41.59%
Bulk Purchases	(7,690,533)	(8,249,676)	559,143	-7.27%
Contracted Services	(3,834,225)	-	(3,834,225)	100.00%
Grants and Subsidies Paid	(411,813)	(1,092,025)	680,212	-165.18%
General Expenses	(10,235,258)	(15,184,896)	4,949,638	-48.36%
<b>Total Expenditure</b>	<b>(54,862,913)</b>	<b>(59,957,074)</b>	<b>5,094,161</b>	
<b>NET SURPLUS / (DEFICIT) FOR THE YEAR</b>	<b>2,836,003</b>	<b>(20,927,874)</b>	<b>23,763,877</b>	

**APPENDIX E(1)**  
**THEMBELIHLE LOCAL MUNICIPALIT**  
**ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR**

Description	2010/2011 Actual	2010/2011 Budget	2010/2011 Variance	2010/2011 Variance
	R	R	R	%
<b>REVENUE</b>				
Property Rates	1,937,860	1,938,565	(705)	-0.04%
Fines	2,201,952	530,054	1,671,898	75.93%
Licences and Permits	163,833	18,660	145,173	88.61%
Government Grants and Subsidies	26,717,955	30,430,586	(3,712,631)	-13.90%
Service Charges	10,838,877	11,040,547	(201,670)	-1.86%
Rental of Facilities and Equipment	186,654	254,122	(67,468)	-36.15%
Interest Earned - External investments	37,679	3,000	34,679	92.04%
Interest Earned - Outstanding debtors	609,825	1,477,885	(868,060)	-142.35%
Other Income	2,116,993	2,273,131	(156,138)	-7.38%
<b>Total Revenue</b>	<b>44,811,628</b>	<b>47,966,550</b>	<b>(3,154,922)</b>	
<b>EXPENDITURE</b>				
Employee Related Costs	(12,332,330)	(11,139,095)	(1,193,235)	9.68%
Remuneration of Councillors	(1,381,097)	(1,403,527)	22,430	-1.62%
Depreciation	(10,565,352)	-	(10,565,352)	100.00%
Impairment Losses	(24,721,036)	(3,510,050)	(21,210,986)	85.80%
Repairs and Maintenance	(2,552,922)	(2,130,927)	(421,995)	16.53%
Interest Paid	(344,399)	(150,783)	(193,616)	56.22%
Bulk Purchases	(5,838,454)	(6,358,020)	519,566	-8.90%
Contracted Services	(749,550)	-	(749,550)	100.00%
Grants and Subsidies Paid	-	(19,111,515)	19,111,515	-100.00%
General Expenses	(7,065,634)	(4,162,633)	(2,903,001)	41.09%
<b>Total Expenditure</b>	<b>(65,550,774)</b>	<b>(47,966,550)</b>	<b>(17,584,224)</b>	
<b>NET SURPLUS / (DEFICIT) FOR THE YEAR</b>	<b>(20,739,146)</b>	<b>-</b>	<b>(20,739,146)</b>	

**Y**  
**THE YEAR ENDED 30 JUNE 2012**

Explanation of Significant Variances greater than 10% versus Budget
<p>Increase expected was not achieved with new valuation roll</p> <p>More fines recovered than expected</p> <p>Variance immaterial in amount</p> <p>Management did not budget for RBI and DWARF grants</p> <p>No material fluctuation</p> <p>No material fluctuation</p> <p>More healthy cash balances than expected</p> <p>Increase due to non-payment of debtors</p> <p>No material fluctuation</p> <p>No material fluctuation</p> <p>Depreciation charge increase due to new additions and under budget</p> <p>Increase in provision for doubtful debt not as significant than expected</p> <p>Unforeseen repairs incurred</p> <p>Loan agreement of DBSA revised, resulting in increase</p> <p>No material fluctuation</p> <p>No amount was included in the budget</p> <p>Re-allocation of expenses due to nature</p> <p>General expenses were controlled to ensure no over expenditure occurred</p>

Y

**THE YEAR ENDED 30 JUNE 2011**

Explanation of Significant Variances greater than 10% versus Budget
No material fluctuation
Difference due to correct allocation of fines income, prior year incorrect
Difference due to correct allocation of fines income, prior year incorrect
No material fluctuation
No amount was budgeted for interest earned on Investment Call Account
Difference due to prior year adjustment
No material fluctuation
No material fluctuation
No material fluctuation
No amount was included in the budget due to Directive 4
Increase due to non-payment of debtors accounts and no provision for doubtful debts
Under budget for the finance charge on DBSA loans
No material fluctuation
No amount was included in the budget
Difference relates to incorrect classification.

## APPENDIX E(2)

### THEMBELIHLE LOCAL MUNICIPALITY

#### ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2012

Description	2011/12	2011/12	2011/12	2011/12	2011/12	2011/12	Explanation of Significant Variances greater than 5% versus Budget
	Actual	Under Construction	Total Additions	Budget	Variance	Variance	
	R	R	R	R	R	%	
Interns	47,025	-	47,025	70,000	(22,975)	(32.82)	Total budget not spent on movable assets
Finance	123,838	-	123,838	-	123,838	100.00	No budget allocated for necessary movables
Library	-	-	-	40,000	(40,000)	(100.00)	Budget not spent on movable assets
Traffic	-	-	-	26,382	(26,382)	(100.00)	Budget not spent on movable assets
Community Hall	42,794	-	42,794	-	42,794	100.00	No budget allocated for necessary movables
Support Services	1,760,519	16,267,672	18,028,191	13,430,954	4,597,237	34.23	Budget included in Electrical Services
Electricity Service	-	-	-	2,500,000	(2,500,000)	(100.00)	Allocated to Support Services
Water Works Service	-	-	-	12,000,000	(12,000,000)	(100.00)	Overbudgeted for infrastructure projects not yet started
<b>Total</b>	<b>1,974,177</b>	<b>16,267,672</b>	<b>18,241,849</b>	<b>28,067,336</b>	<b>(9,825,487)</b>	<b>(35.01)</b>	

#### ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 June 2011

Description	2010/11	2010/11	2010/11	2010/11	2010/11	2010/11	Explanation of Significant Variances greater than 5% versus Budget
	Actual	Under Construction	Total Additions	Budget	Variance	Variance	
	R	R	R	R	R	%	
General Administration	1,075	-	1,075	-	1,075	100.00	Immaterial over spending
Finance	18,194	-	18,194	-	18,194	100.00	Immaterial over spending
Library	1,228	-	1,228	72,000	(70,772)	(98.29)	Projects were not executed
Technical Services	13,264,283	-	13,264,283	-	13,264,283	100.00	Incorrect allocation of amounts to votes
Support Services	154	-	154	16,081,467	(16,081,313)	(100.00)	Incorrect allocation of amounts to votes
Electricity Service	30,375	-	30,375	-	30,375	100.00	Immaterial over spending
Water Works Service	24,470	-	24,470	16,116	8,354	51.84	Immaterial over spending
<b>Total</b>	<b>13,339,778</b>	<b>-</b>	<b>13,339,778</b>	<b>16,169,583</b>	<b>(2,829,805)</b>	<b>(17.50)</b>	

**APPENDIX F**  
**THEMBELIHLE LOCAL MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012**

Name of Grant	Name of Organ of State or Municipal Entity	RECEIPTS				COSTS INCURRED				Grants and Subsidies Delayed / Withheld	Compliance to Revenue Act
		Sept	Dec	March	June	Sept	Dec	March	June		
Equitable Share	National	4,854,000	3,613,000	3,882,000	-	4,854,000	3,613,000	3,882,000	-	N/A	Yes
FMG	National	1,500,000	-	-	-	292,010	84,104	837,052	286,834	N/A	Yes
National: MIG	National	3,500,000	-	7,686,000	-	1,421,074	560,994	665,598	4,471,530	N/A	Yes
National: MSIG	National	790,000	-	-	-	189,687	352,072	20,802	227,439	N/A	Yes
Provincial: Department Minerals & Energy (Eskom G	Provincial	1,072,000	1,071,000	357,000	-	-	293,896	112,813	2,093,291	N/A	Yes
National: Department of Water Affairs	National	1,150,306	1,010,146	1,505,615	860,905	1,130,914	410,972	1,919,323	1,065,763	N/A	Yes
Provincial: LED Economic Growth & Development G	Provincial	-	-	-	-	2,434,387	-	-	-	N/A	Yes
Provincial: Library	Provincial	-	457,000	-	-	-	457,000	-	-	N/A	Yes
National: RBI	National	-	1,623,826	2,120,568	-	-	-	3,744,394	-	N/A	Yes
Other Government	Other	291,590	1,700	-	-	291,590	1,700	-	-	N/A	Yes
<b>Total Grants and Subsidies Received</b>		<b>13,157,896</b>	<b>7,776,672</b>	<b>15,551,183</b>	<b>860,905</b>	<b>10,613,662</b>	<b>5,773,738</b>	<b>11,181,982</b>	<b>8,144,857</b>		